

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Amendment No. 2**  
**to**  
**FORM S-1**  
**REGISTRATION STATEMENT**  
*Under*  
*the Securities Act of 1933*

**SERVICENOW, INC.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

7372  
(Primary Standard Industrial  
Classification Code Number)

20-2056195  
(I.R.S. Employer  
Identification Number)

ServiceNow, Inc.  
12225 El Camino Real, Suite 100  
San Diego, California 92130  
(858) 720-0477

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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President and Chief Executive Officer  
ServiceNow, Inc.  
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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Non-accelerated filer ☒

(Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

**PROSPECTUS (Subject to Completion)**

Dated May 24, 2012

Shares  
**service**now****<sup>TM</sup>  
COMMON STOCK

ServiceNow, Inc. is offering \_\_\_\_\_ shares of common stock and the selling stockholders are offering \_\_\_\_\_ shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

We have applied to list our common stock on the New York Stock Exchange under the symbol “NOW.”

We are an “emerging growth company” as defined under the federal securities laws. Investing in our common stock involves risks. See “[Risk Factors](#)” beginning on page 10.

	PRICE \$	A SHARE		
	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to ServiceNow</u>	<u>Proceeds to Selling Stockholders</u>
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

We and the selling stockholders have granted the underwriters the right to purchase up to an additional \_\_\_\_\_ shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on \_\_\_\_\_, 2012.

MORGAN STANLEY

CITIGROUP

DEUTSCHE BANK SECURITIES

BARCLAYS

CREDIT SUISSE

UBS INVESTMENT BANK

PACIFIC CREST SECURITIES

WELLS FARGO SECURITIES

, 2012

# Transform IT

**servicenow™**

Cloud-Based Services to Automate Enterprise IT Operations

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You should rely only on the information contained in this prospectus or contained in any free writing prospectus filed with the Securities and Exchange Commission. Neither we, the selling stockholders nor the underwriters have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange Commission. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We and the selling stockholders are offering to sell, and seeking offers to buy, our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

**Through and including , 2012 (25 days after the date of this prospectus), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

For investors outside the United States: Neither we, the selling stockholders, nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside the United States.

## PROSPECTUS SUMMARY

*The following summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included in this prospectus and the information set forth under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”*

### SERVICENOW, INC.

#### Overview

ServiceNow is a leading provider of cloud-based services to automate enterprise information technology, or IT, operations. Our service includes a suite of applications built on our proprietary platform that automates workflow and integrates related business processes. We focus on transforming enterprise IT by automating and standardizing business processes and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, to lower operational costs and to enhance efficiency. Additionally, our customers use our extensible platform to build custom applications for automating activities unique to their business requirements.

We help transform IT organizations from reactive, manual and task-oriented, to pro-active, automated and service-oriented organizations. Our on-demand service enables organizations to define their IT strategy, design the systems and infrastructure that will support that strategy, and implement, manage and automate that infrastructure throughout its lifecycle. We provide a broad set of integrated applications that are highly configurable and can be efficiently implemented and upgraded. Further, our multi-instance architecture has proven scalability for global enterprises, as well as advantages in security, reliability and deployment location.

We offer our service under a Software-as-a-Service, or SaaS, business model. Customers can rapidly deploy our service in a modular fashion, allowing them to solve immediate business needs and access, configure and build new applications as their requirements evolve. Our service, which is accessed through an intuitive web-based interface, can be easily configured to adapt to customer workflow and processes. Upgrades to our service are designed to be efficient and compatible with configuration changes and applied with minimal disruption to ongoing operations.

We have achieved significant growth in recent periods. A majority of our revenues comes from large, global enterprise customers. Our total customers grew 61% from 668 as of March 31, 2011 to 1,074 as of March 31, 2012. Our customers operate in a wide variety of industries, including financial services, consumer products, IT services, health care and technology. For the fiscal years ended June 30, 2010 and 2011, our revenues grew 114% from \$43.3 million to \$92.6 million. We incurred a net loss of \$29.7 million and generated net income of \$9.8 million for the fiscal years ended June 30, 2010 and 2011, respectively. For the six months ended December 31, 2010 and 2011, our revenues grew 93% from \$37.9 million to \$73.4 million. We generated net income of \$4.8 million and incurred a net loss of \$6.7 million for the six months ended December 31, 2010 and 2011, respectively. For the three months ended March 31, 2011 and 2012, our revenues grew 88% from \$25.2 million to \$47.4 million. We generated net income of \$3.0 million and incurred a net loss of \$5.6 million for the three months ended March 31, 2011 and 2012, respectively.

#### Our Industry

##### *Enterprises Face Increasing Challenges in Managing and Automating IT Operations*

For decades, enterprises have invested in IT to empower their workforces and enable business critical functionality. This investment reflects enterprise dependence on a myriad of software applications, databases,

operating systems, servers, networking equipment, personal computers, mobile devices, and a variety of other hardware and software assets. When managing the IT environment, enterprises face significant challenges:

*Complexity of IT environments.* The accelerating adoption of cloud-based services, virtual servers and desktops, and mobile technologies has added to the complexity of enterprise IT environments.

*Budget pressures.* IT executives are consistently asked to deliver more value for less cost, and to provide transparency regarding the true costs and business value of IT investments. The most recent downturn in the global economy has heightened these demands.

*Alignment to business goals.* IT organizations are increasingly asked to be proactive and design and develop new processes that span the entire enterprise, rather than support a set of discrete technologies and react to business changes. IT organizations must develop strategies to enable necessary business changes. This has resulted in a much greater need for alignment of IT strategy and performance with overall business performance.

*Consumerization of IT.* Individuals are spending more time interacting with intuitive, social and mobile consumer-oriented Internet services. These experiences have increased business users' expectations that they can access and interact with corporate IT technologies in a similar, familiar way. IT organizations are struggling to respond to these increased demands in a cost-effective manner.

*Integration and standardization.* Enterprises need integrated and standardized solutions that work with their existing systems and follow the most recent Information Technology Infrastructure Library, or ITIL, standard, a set of recommended business processes designed and adopted by IT operations industry participants globally to maximize the availability and usability of IT assets and the efficiency of IT staff.

#### **Legacy IT Management Products Fall Short**

Organizations have invested heavily in legacy software products to manage the inventory, cost and performance of IT resources. These traditional software products were originally architected in the 1980s and 1990s before the introduction of many of today's modern computing technologies. Shortcomings of these legacy products include:

- **Disparate and redundant solutions.** Many legacy IT management products were developed and widely deployed decades ago. Vendors of these products have in many cases relied upon acquisitions and partnerships to extend their offerings and have not re-architected their solutions to provide the seamless, integrated platform that customers desire. In addition, enterprises may have overlapping solutions in various business units, especially those that have grown by acquisition or that operate globally. As a result, many enterprises operate multiple systems and infrastructures.
- **Inflexible integration, customization and maintenance.** Enterprises face numerous challenges when trying to customize legacy IT management products to meet their specific needs, as well as integrate them with third-party solutions. Due to their architectures and proprietary languages, these inflexible products often cannot be easily customized to meet customers' business requirements and are difficult to integrate and maintain. As a result, enterprises may be required to adapt their business processes to the capabilities of the software.
- **Highly manual.** Many legacy IT management products installed today are time-consuming, prone to error and prevent IT from rapidly responding to business needs.
- **Upgrade challenges and disruption of service.** Once legacy IT management products have been installed, integrated and customized, upgrades can be challenging. As new versions of the software are released on a periodic basis, customers are often required to re-implement the updated software with limited ability to carry forward customizations.

- **Difficult to use and access.** Many legacy IT management products lack a modern, easy to navigate user interface and were not originally designed to be accessed over the Internet or on mobile devices.
- **High total cost of ownership.** Because legacy IT management products are often disparate, inflexible, highly manual, challenging to upgrade and difficult to use and access, we believe these products have a high total cost of ownership.

#### Our Solution

Our cloud-based service includes the following key elements:

- **Broad set of integrated functionality and modular deployments.** Our suite of applications was developed to address core ITIL processes as well as additional business processes, and runs on a single extensible platform. Our platform includes workflow automation, notification, assignment and escalation, third-party integration capabilities, reporting and administration capabilities. Our cloud-based service is designed to be deployed in a modular fashion, allowing customers to solve immediate business needs and access new application functionality as needs evolve.
- **Automation of IT operations.** Our service automates the documentation, categorization, prioritization, assignment, notification and escalation of IT and other business processes. Additionally, our service automates routine and repeatable data center operations such as rebooting a server, cloning a database or deploying a virtualized environment.
- **Highly configurable and extensible to meet business needs.** Our configuration features are designed to give customers the ability to easily alter the appearance and operation of the user interface, change and develop business rules to meet specific requirements, and extend the database schema to support the tracking and capturing of necessary data. As a result, our service enables management of IT operations without requiring changes to existing business processes. In addition, our customers and partners can use our platform to build applications to automate processes that are unique to their businesses.
- **Efficient implementations and integration.** Our cloud-based model allows customers to quickly access and deploy our service without the need to install and maintain costly infrastructure hardware and software necessary for on-premises deployments. Our service is developed on an architecture that enables efficient integration with third-party architectures and other data sources.
- **Efficient upgrades.** We design our upgrades to be compatible with customer configuration changes and applied rapidly with minimal disruption to ongoing operations, enabling customers to be on the most up-to-date version.
- **Scalable, secure and reliable multi-instance architecture.** Our multi-instance architecture is designed to provide scalability, security and reliability for customers' large, global businesses. By providing customers with dedicated applications and databases we ensure that customer data is not comingled. In addition, this architecture reduces risk associated with infrastructure outages, improves system scalability and security, and allows for flexibility in deployment location.

Our cloud-based service provides the following business benefits:

- **Single system of record for IT.** We provide a single system of record for IT executives to track assets, activities and resources across the multiple systems and infrastructures currently in use in large enterprises. This provides executives with the ability to execute their IT strategy by quickly assessing how well their IT infrastructure is supporting business processes, analyzing business needs real-time and developing business solutions as needs evolve.

- **Lower total cost of ownership.** We assume complete responsibility for our service, including application set, hosting infrastructure, maintenance, monitoring, storage, security, customer support and upgrades, all of which free customer resources. Additionally, we manage, monitor and handle upgrades and patch deployments remotely, which can result in lower total cost of ownership to our customers compared to legacy IT management products.
- **Easy to use and widely accessible.** Our suite of intuitive and easy-to-use applications provides users with a familiar experience based on business-to-consumer concepts. Users can access our service through a web-based interface anywhere an Internet connection is available, including through mobile devices. We believe this ease of use and accessibility result in increased user adoption of specified processes, enhancing efficiency.

### Our Growth Strategy

Our goal is to be the industry-recognized leading provider of cloud-based services to automate enterprise IT operations. Key elements of our growth strategy include:

- **Expand our customer base.** We believe the global market for next-generation enterprise IT operations management is large and underserved, and we intend to continue to make investments in our business to capture increasingly larger market share. To expand our customer base we intend to invest in our direct sales force and strategic resellers as well as our data center footprint. In particular, we grew our sales and marketing team from 140 as of June 30, 2011 to 270 as of March 31, 2012.
- **Further penetrate our existing customer base.** We intend to increase the number of subscriptions purchased by our current customers as they deploy additional core ITIL and extended IT applications, and use our platform to develop custom applications to meet business needs outside of IT. Additionally, we believe there are significant cross-sell opportunities for our separately licensed Discovery and Runbook Automation technologies.
- **Expand internationally.** We have a large and growing international presence, and intend to grow our customer base in various regions. We are investing in new geographies, including investment in direct and indirect sales channels, data centers, professional services, customer support and implementation partners.
- **Continue to innovate and enhance our service offerings.** We have made, and will continue to make, significant investments in research and development to strengthen our existing applications, expand the number of applications on our platform and develop additional automation technologies. We typically offer multiple upgrades each year that allow our customers to benefit from ongoing innovation.
- **Strengthen our customer community.** We have an enthusiastic and engaged customer community that contributes to our success through their willingness to share their ServiceNow experiences with other potential customers. Customer needs drive our development efforts. We will continue to leverage our large and growing customer community to expose our existing customers to new use cases and increase awareness of our service.
- **Develop our partner ecosystem.** We intend to further develop our existing partner ecosystem by establishing agreements with strategic resellers and system integrators to provide broader customer coverage, access to senior executives and solution delivery capabilities. As we expand our base of partners, we intend to grow our indirect sales team and marketing efforts to support our distribution network.
- **Further promote our extensible platform.** We plan to grow investments in our platform to better enable the creation of custom applications to address specific business issues. We believe our platform provides substantial application development capabilities and we intend to further realize the potential of our platform as a strategy to penetrate large and growing markets.



### **Selected Risks Associated with Our Business**

Our business is subject to a number of risks and uncertainties, including those highlighted in the section titled “Risk Factors” immediately following this prospectus summary. Some of these risks are:

- We have a limited history of operating profits and, as our growth rates decline and our costs increase, may not achieve or maintain profitability in the future;
- We have experienced rapid growth in recent periods and may not be able to manage this growth and expansion, or our business may not grow as we expect;
- The market for enterprise IT operations management solutions is rapidly evolving and highly competitive;
- Declines in customer renewal rates would harm our future operating results;
- Defects or disruptions in our service or security breaches could diminish demand for our service and subject us to substantial liability;
- Interruptions or delays in service from our third-party data center facilities could impair the delivery of our service and harm our business;
- Our transition from third-party hosted data centers to our own managed co-location facilities is expensive and complex, and could result in inefficiencies or operational failure and increased risk;
- Our quarterly results may fluctuate and, if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially; and
- Our directors, officers and principal stockholders beneficially owned approximately 91% of our outstanding stock prior to this offering, will beneficially own approximately % after this offering and therefore will continue to have the ability to determine all matters requiring stockholder approval.

### **Corporate Information**

We were incorporated as Glidesoft, Inc. in California in June 2004 and changed our name to Service-now.com in February 2006. In May 2012, we reincorporated into Delaware as ServiceNow, Inc. Our principal executive offices are located at 12225 El Camino Real, Suite 100, San Diego, California 92130, and our telephone number is (858) 720-0477. Our website address is [www.service-now.com](http://www.service-now.com). The information contained on, or that can be accessed through, our website is not a part of this prospectus. Investors should not rely on any such information in deciding whether to purchase our common stock. We have included our website address in this prospectus solely as an inactive textual reference.

Unless the context indicates otherwise, as used in this prospectus, the terms “ServiceNow,” “we,” “us” and “our” refer to ServiceNow, Inc., a Delaware corporation, and its subsidiaries taken as a whole, unless otherwise noted.

In February 2012, we changed our fiscal year-end from June 30 to December 31. Throughout this prospectus, references to “fiscal 2009,” “fiscal 2010” and “fiscal 2011” are to the fiscal years ended June 30, 2009, 2010 and 2011, respectively.

We have registered the trademark “SERVICENOW” with the United States Patent and Trademark Office. Our ServiceNow logo, “Discovery” and “Runbook Automation” are unregistered trademarks or service marks of ServiceNow and are the property of ServiceNow. This prospectus also includes references to trademarks and service marks of other entities, and those trademarks and service marks are the property of their respective owners.

## THE OFFERING

Common stock offered	
By us	shares
By the selling stockholders	shares
Total	shares
Common stock to be outstanding after this offering	shares (            shares if the over-allotment option is exercised in full)
Over-allotment option	shares (with            shares being offered by us and            shares being offered by the selling stockholders)
Use of proceeds	We plan to use the net proceeds from this offering for general corporate purposes, including working capital. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders. See “Use of Proceeds.”
Proposed New York Stock Exchange symbol	“NOW”

The number of shares of our common stock to be outstanding after this offering is based on 111,289,770 shares of common stock outstanding as of March 31, 2012, and excludes:

- 36,958,079 shares of common stock issuable upon the exercise of outstanding options with a weighted-average exercise price of \$2.91 per share and 1,000,000 shares of common stock issuable pursuant to outstanding restricted stock units, or RSUs, under our 2005 Stock Plan;
- 4,300,809 shares of common stock reserved for future issuance under our 2005 Stock Plan; provided, however, that immediately prior to the closing of this offering, any remaining shares available for issuance under our 2005 Stock Plan will be added to the shares reserved under our 2012 Equity Incentive Plan and we will cease granting awards under the 2005 Stock Plan;
- 9,600,000 additional shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective on the date immediately prior to the date on which the registration statement is declared effective; and
- 25,000,000 shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective upon the closing of this offering.

Unless otherwise indicated, all information in this prospectus assumes:

- the filing of our restated certificate of incorporation and the adoption of our restated bylaws as of the closing of this offering;
- no exercise by the underwriters of their option to purchase            shares of common stock to cover over-allotments; and
- the conversion of all of our outstanding shares of convertible preferred stock into an aggregate of 83,703,016 shares of common stock immediately upon the closing of this offering.

## SUMMARY CONSOLIDATED FINANCIAL DATA

The following consolidated financial data should be read together with our consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this prospectus. We have derived the following consolidated statements of operations data for fiscal 2009, 2010 and 2011 and for the six months ended December 31, 2011 and the selected consolidated balance sheet data as of June 30, 2010 and 2011 and December 31, 2011 from our audited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated statement of operations data for the six months ended December 31, 2010 and the three months ended March 31, 2011 and 2012, and the unaudited selected consolidated balance sheet data as of March 31, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited financial information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, we consider necessary for a fair statement of the financial information set forth in those statements. Our historical results are not necessarily indicative of our results to be expected for any future period.

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
(in thousands, except share and per share data)							
<b>Consolidated Statements of Operations Data:</b>							
Revenues <sup>(1)</sup> :							
Subscription	\$ 17,841	\$ 40,078	\$ 79,191	\$ 33,191	\$ 64,886	\$ 21,224	\$ 39,541
Professional services and other	1,474	3,251	13,450	4,753	8,489	3,988	7,890
Total revenues	19,315	43,329	92,641	37,944	73,375	25,212	47,431
Cost of revenues <sup>(2)(3)</sup> :							
Subscription	3,140	6,378	15,311	6,096	15,073	4,451	11,012
Professional services and other	4,711	9,812	16,264	6,778	12,850	4,763	10,224
Total cost of revenues	7,851	16,190	31,575	12,874	27,923	9,214	21,236
Gross profit	11,464	27,139	61,066	25,070	45,452	15,998	26,195
Operating expenses <sup>(2)(3)</sup> :							
Sales and marketing	8,499	19,334	34,123	13,728	32,501	8,309	19,307
Research and development	2,433	7,194	7,004	2,758	7,030	1,885	6,043
General and administrative	6,363	28,810	9,379	3,417	10,084	2,680	6,427
Total operating expenses	17,295	55,338	50,506	19,903	49,615	12,874	31,777
Income (loss) from operations	(5,831)	(28,199)	10,560	5,167	(4,163)	3,124	(5,582)
Interest and other income (expense), net	(27)	(1,226)	606	289	(1,446)	252	492
Income (loss) before provision for income taxes	(5,858)	(29,425)	11,166	5,456	(5,609)	3,376	(5,090)
Provision for income taxes	48	280	1,336	653	1,075	385	550
Net income (loss)	(5,906)	(29,705)	9,830	4,803	(6,684)	2,991	(5,640)
Net income (loss) per share attributable to common stockholders <sup>(4)</sup> :							
Basic	\$ (0.17)	\$ (1.31)	\$ 0.09	\$ 0.04	\$ (0.33)	\$ 0.03	\$ (0.23)
Diluted	\$ (0.17)	\$ (1.31)	\$ 0.08	\$ 0.04	\$ (0.33)	\$ 0.03	\$ (0.23)

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	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
(in thousands, except share and per share data)							
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders <sup>(4)</sup> :							
Basic	39,039,066	23,157,576	18,163,977	17,156,445	21,104,219	18,702,229	25,123,582
Diluted	39,039,066	23,157,576	28,095,486	27,622,357	21,104,219	28,368,105	25,123,582
Pro forma net income (loss) per share attributable to common stockholders <sup>(4)</sup> :							
Basic			\$ 0.09		\$ (0.06)		\$ (0.05)
Diluted			\$ 0.09		\$ (0.06)		\$ (0.05)
Pro forma weighted-average shares used to compute pro forma net income (loss) per share attributable to common stockholders <sup>(4)</sup> :							
Basic			103,617,973		106,558,215		108,826,598
Diluted			113,633,033		106,558,215		108,826,598

(1) Revenues for fiscal 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012 reflect the prospective adoption of new revenue accounting guidance commencing on July 1, 2010. As a result of this guidance, we separately allocate value for multiple element contracts between our subscription revenues and professional services revenues based on the best estimate of selling price. Additionally, we recognize professional services revenues as the services are delivered. Please refer to Note 2 to our consolidated financial statements for further discussion of our revenue recognition policies.

(2) Stock-based compensation included in the statements of operations above was as follows:

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
(in thousands)							
Cost of revenues:							
Subscription	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 156	\$ 532
Professional services and other	11	28	117	37	193	38	192
Sales and marketing	45	277	1,004	431	2,010	288	1,471
Research and development	50	90	468	207	704	143	661
General and administrative	15	102	817	221	2,056	130	1,062

(3) Operating expenses for fiscal 2009 reflect compensation expense of \$3.8 million related to the stock settlement of an outstanding promissory note in connection with our sale and issuance of Series C preferred stock. Cost of revenues and operating expenses for fiscal 2010 reflect compensation expense of \$0.7 million and \$30.1 million, respectively, related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.

(4) Please refer to Note 13 to our consolidated financial statements for an explanation of the method used to calculate the historical and pro forma net income (loss) per share attributable to common stockholders and the number of shares used in the computation of the per share amounts.

	As of June 30,		As of December 31,	As of March 31, 2012		
	2010	2011	2011	Actual	Pro Forma <sup>(1)</sup>	Pro Forma as Adjusted <sup>(2)(3)</sup>
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 29,402	\$ 59,853	\$ 68,088	\$ 80,140	\$ 80,140	\$
Working capital, excluding deferred revenue	33,080	75,801	95,033	117,695	117,695	
Total assets	51,369	108,746	156,323	184,998	184,998	
Deferred revenue, current and non-current portion	40,731	74,646	104,636	115,757	115,757	
Convertible preferred stock	67,227	67,860	68,172	68,327	—	
Total stockholders' equity (deficit)	(71,262)	(58,381)	(57,426)	(40,198)	28,129	

- (1) The pro forma column reflects the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 83,703,016 shares of common stock immediately upon the closing of this offering and the filing of our restated certificate of incorporation upon the closing of this offering.
- (2) The pro forma as adjusted column reflects the pro forma adjustments described above and the sale and issuance of \_\_\_\_\_ shares of common stock in this offering by us, and the receipt of the net proceeds from our sale of these shares at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.
- (3) A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share would increase (decrease) each of cash, working capital, total assets and total stockholders' equity by approximately \$ \_\_\_\_\_ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions. Similarly, each increase (decrease) of one million shares in the number of shares offered by us would increase (decrease), cash, working capital, total assets and total stockholders' equity by approximately \$ \_\_\_\_\_ million, assuming the assumed initial public offering price remains the same and after deducting the underwriting discounts and commissions. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

## RISK FACTORS

*Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be harmed. In that event, the market price of our common stock could decline and you could lose part or even all of your investment.*

### **Risks Related to Our Business and Industry**

***We have a limited history of operating profits, did not generate a profit in the six months ended December 31, 2011 or the three months ended March 31, 2012, and may not achieve or maintain profitability in the future.***

We have not been consistently profitable on a quarterly or annual basis. Although we had net income for fiscal 2011, we experienced net losses of \$5.9 million, \$29.7 million, \$6.7 million and \$5.6 million for fiscal 2009, fiscal 2010, the six months ended December 31, 2011 and the three months ended March 31, 2012, respectively. As of March 31, 2012, our accumulated deficit was \$73.8 million. While we have experienced significant revenue growth over recent periods, we may not be able to sustain or increase our growth or return to profitability in the future. Over the past year, we have significantly increased our expenditures to support the development and expansion of our business, which has resulted in increased losses. We plan to continue to invest for future growth, and as a result, we do not expect to be profitable for the remainder of 2012. In addition, as a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenues to achieve future profitability. We may incur significant losses in the future for a number of reasons, including without limitation the other risks and uncertainties described in this prospectus. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed.

***We have experienced rapid growth in recent periods. If we are not able to manage this growth and expansion, or if our business does not grow as we expect, our operating results may suffer.***

We continue to experience rapid growth in our customer base and have significantly expanded our operations during the last several years. In particular, we are aggressively investing in: significant expansion of our cloud infrastructure and associated service capacity; our global sales, marketing and operations activities and personnel; and additional office facility lease commitments and administrative employees. Our employee headcount has increased from 375 as of June 30, 2011 to 729 as of March 31, 2012, and we plan on adding over 400 employees during the remainder of 2012. We signed new leases for a larger corporate headquarters in San Diego in February 2012 and additional office space in San Jose in April 2012 and are currently seeking to further expand our San Jose, London and Amsterdam offices. In addition, we hired new senior management in 2011 and 2012. Our rapid growth has placed, and will continue to place, a significant strain on our administrative and operational infrastructure. Our ability to manage our operations and growth will require us to continue to refine our operational, financial and management controls, human resource policies, and reporting systems and procedures. For instance, in 2012 we plan to implement a new financial enterprise resource planning system to help manage our future growth. If we fail to efficiently expand our sales force, operations or IT and financial systems, or if we fail to implement or maintain effective internal controls and procedures, our costs and expenses may increase more than we plan and we may lose the ability to close customer opportunities, enhance our existing service, develop new applications, satisfy customer requirements, respond to competitive pressures or otherwise execute our business plan. Additionally, as our operating expenses increase in anticipation of the growth of our business, if such growth does not meet our expectations, our financial results likely would be harmed.

***Defects or disruptions in our service could diminish demand for our service and subject us to substantial liability.***

Like many Internet-based SaaS companies, we provide frequent incremental releases of product updates and functional enhancements. Such new versions frequently contain undetected errors when first introduced or released. We have from time to time found defects in our service, and new errors in our existing service may be detected in the future. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers. Since our customers use our service for important aspects of their business, any errors, defects, disruptions in service or other performance problems with our service could hurt our reputation and may damage our customers' businesses. If that occurs, our customers may delay or withhold payment to us, elect not to renew, make service credit claims, warranty claims or other claims against us, and we could lose future sales. The occurrence of any of these events could result in an increase in our bad debt expense, an increase in collection cycles for accounts receivable, require us to increase our warranty provisions, or incur the expense or risk of litigation. Further, if we are unable to meet the stated service level commitments we have guaranteed to our customers or suffer extended periods of unavailability for our service, we may be contractually obligated to provide these customers with credits for future service. We do not carry insurance sufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business that may result from interruptions in our service.

***Interruptions or delays in service from our third-party data center facilities could impair the delivery of our service and harm our business.***

We currently serve our customers from third-party data center facilities, operated by several different providers, located around the world, with the largest located in Boston, San Jose, Washington, D.C., London and Amsterdam. Any damage to, or failure of, our systems generally could result in interruptions in our service. As we continue to add data centers and capacity in our existing data centers, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Any damage to, or failure of, our systems, or those of our third-party data centers, could result in interruptions in our service. Impairment of or interruptions in our service may reduce our revenues, cause us to issue credits or pay penalties, subject us to claims and litigation, cause our customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

We do not control, or in some cases have limited control over, the operation of the data center facilities we use, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, and to adverse events caused by operator error. For example, our third-party data center facility in London was subjected to a distributed denial of service attack in January 2012 that prevented some of our customers hosted in that data center from using our service intermittently for a period of about three hours. We cannot rapidly switch to new data centers or move customers from one data center to another in the event of any adverse event. Despite precautions taken at these facilities, the occurrence of a natural disaster, an act of terrorism or other act of malfeasance, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service and the loss of customer data.

***Our transition from third-party hosted data centers to our own managed co-location facilities is expensive and complex, will result in a negative impact on our near-term cash flows and may negatively impact our financial results.***

We have made and will continue to make substantial investments in new equipment to support growth at our data centers and provide enhanced levels of service to our customers. First, we are transitioning from a managed service hosting model, where a third party manages most aspects of the operations, to a co-location model, where we will have more direct control over the hosting infrastructure and its operation. Second, we are investing in

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enhancements to our cloud architecture, which are designed to provide our customers with enhanced data reliability and reduce potential service disruptions. We anticipate a negative impact on our margins in the near term as we accelerate depreciation on certain assets from our managed service hosting data centers and incur additional rent expenses as we complete this transition. However, as our data centers scale with our anticipated customer growth, we expect this transition will improve our margins in the long-term. We expect to complete these two transitions in the second half of 2012. For purchases of equipment for use in our data centers, we made capital expenditures of \$3.1 million in the three months ended March 31, 2012 and anticipate making capital expenditures of approximately \$22.0 million during the remainder of fiscal 2012. If it takes longer than we expect to complete this transition, the negative impact on our operating results would likely exceed our initial expectations, particularly if the scope of the project grows and we deploy additional resources and hire additional personnel to complete the project. Additionally, to the extent that we are required to add data center capacity to accommodate customer demands, we may need to significantly increase the bandwidth, storage, power or other elements of our hosting operations, and the costs associated with adjustments to our data center architecture could also harm our margins and operating results.

***If our security measures are breached or unauthorized access to customer data is otherwise obtained, our service may be perceived as not being secure, customers may curtail or stop using our service, and we may incur significant liabilities.***

Our operations involve the storage and transmission of our customers' confidential information, and security breaches, computer malware and computer hacking attacks could expose us to a risk of loss of this information, litigation, indemnity obligations and other liability. While we have administrative, technical, and physical security measures in place, and try to contractually require third parties to whom we transfer data to implement and maintain appropriate security measures, if our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our customers' data, including personally identifiable information regarding users, our reputation will be damaged, our business may suffer and we could incur significant liability. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose potential sales and existing customers.

***If the market for our technology delivery model and SaaS develops more slowly than we expect, our growth may slow or stall, and our operating results would be harmed.***

Use of SaaS applications to manage and automate enterprise IT is at an early stage. We do not know whether the trend of adoption of enterprise SaaS solutions we have experienced in the past will continue in the future. In particular, many organizations have invested substantial personnel and financial resources to integrate legacy software into their businesses over time, and some have been reluctant or unwilling to migrate to SaaS. Furthermore, some organizations, particularly large enterprises upon which we are dependent, have been reluctant or unwilling to use SaaS because they have concerns regarding the risks associated with the security of their data and the reliability of the technology delivery model associated with these solutions. In addition, if other SaaS providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for SaaS solutions as a whole, including our service, will be negatively impacted. If the adoption of SaaS solutions does not continue, the market for these solutions may stop developing or may develop more slowly than we expect, either of which would harm our operating results.



***The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.***

The market for enterprise IT operations management solutions is fragmented, rapidly evolving and highly competitive, with relatively low barriers to entry in some segments. Many of our competitors and potential competitors are larger and have greater name recognition, much longer operating histories, more established customer relationships, larger marketing budgets and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our service and new market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures. If we are unable to achieve our target pricing levels, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our service to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from in-house solutions, large integrated systems vendors and smaller companies with point solutions including SaaS offerings. Our competitors vary in size and in the breadth and scope of the products and services offered. Our primary competitors include BMC Software, Inc., CA, Inc., Hewlett-Packard Company and International Business Machines Corporation, all of which can bundle competing products and services with other software offerings, or offer them at a low price as part of a larger sale. In addition, many of our competitors offer SaaS solutions and may make acquisitions of businesses or assets that improve their service offerings. Further, other established SaaS providers not currently operating in enterprise IT operations management may expand their services to compete with our service. Many of our current and potential competitors have established marketing relationships, access to larger customer bases, pre-existing customer relationships and major distribution agreements with consultants, system integrators and resellers. In addition, some competitors may offer software that addresses one or a limited number of enterprise IT operation functions at lower prices or with greater depth than our service. Moreover, as we expand the scope of our service, we may face additional competition from platform and application development vendors. Additionally, some potential customers, particularly large enterprises, may elect to develop their own internal solutions. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

***Because our sales efforts are targeted at large enterprise customers, we face longer sales cycles, substantial upfront sales costs and less predictability in completing some of our sales. If our sales cycle lengthens, or if our substantial upfront sales investments do not result in sufficient sales, our operating results could be harmed.***

We target our sales efforts at large enterprises, which we define as companies with over \$750 million in revenues and a minimum of 200 IT employees. For instance, we derived approximately 10%, 12% and 12% of our revenues from large enterprise customers in the financial services industry for fiscal 2011, the six months ended December 31, 2011 and the three months ended March 31, 2012, respectively. Because our large enterprise customers are often making an enterprise-wide decision to deploy our service, sometimes on a global basis, we face long sales cycles, complex customer requirements, substantial upfront sales costs and less predictability in completing some of our sales. Our sales cycle is generally six to nine months, but is variable and difficult to predict and can be much longer. Large enterprises often undertake a prolonged evaluation of our service, including whether the customer needs professional services performed by us or a third party for its unique IT and business process needs, and a comparison of our service to products offered by our competitors. Moreover, our large enterprise customers often begin to deploy our service on a limited basis, but nevertheless demand extensive configuration, integration services and pricing concessions, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our service widely enough across their organization to justify our substantial upfront investment. We anticipate that in the future we may experience even longer sales cycles, more complex customer needs, higher upfront sales costs and less

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predictability in completing some of our sales as we continue to expand our direct sales force and thereby increase the percentage of our sales personnel with less experience in selling our service, expand into new territories and expand into functional areas outside of the traditional ITIL processes. If our sales cycle lengthens or our substantial upfront sales and implementation investments do not result in sufficient sales to justify our investments, our operating results may be harmed.

***Our business depends substantially on our customers renewing their subscriptions and purchasing additional subscriptions from us. Any decline in our customer renewals would harm our future operating results.***

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions when the initial contract term expires and add additional authorized users to their subscriptions. Our customers have no obligation to renew their subscriptions, and we cannot assure you that our customers will renew subscriptions with a similar contract period or with the same or a greater number of authorized users. Although our renewal rates have been historically high, some of our customers have elected not to renew their agreements with us and we cannot accurately predict renewal rates. Moreover, in some cases, some of our customers have the right to cancel their agreements prior to the expiration of the term.

Our renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction with our subscription service, our professional services, our customer support, our prices, the prices of competing solutions, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers' spending levels. Our future success also depends in part on our ability to sell more subscriptions and additional professional services to our current customers. If our customers do not renew their subscriptions, renew on less favorable terms or fail to add more authorized users or fail to purchase additional professional services, our revenues may decline, and we may not realize improved operating results from our customer base.

***If we are not able to develop enhancements and new applications that achieve market acceptance or that keep pace with technological developments, our business could be harmed.***

Our ability to attract new customers and increase revenues from existing customers depends in large part on our ability to enhance and improve our existing service and to introduce new services. In order to grow our business, we must develop a service that reflects future updates to the ITIL framework and extends beyond the ITIL framework into other areas of enterprise IT operations management. The success of any enhancement or new service depends on several factors, including timely completion, adequate quality testing, introduction and market acceptance. Any new service that we develop may not be introduced in a timely or cost-effective manner, contain defects or may not achieve the broad market acceptance necessary to generate significant revenues. If we are unable to successfully develop new applications or enhance our existing service to meet customer requirements, our business and operating results will be harmed.

Because we designed our service to be provided over the Internet, we need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication and database technologies and standards. If we are unable to respond in a timely manner to these rapid technological developments and standards changes in a cost-effective manner, our service may become less marketable and less competitive or obsolete and our operating results may be harmed.

***We may not timely and effectively scale and adapt our existing technology to meet the performance and other requirements of our large global enterprise customers.***

Our future growth is dependent upon our ability to continue to meet the expanding needs of our large enterprise customers as their use of our service grows. As these customers gain more experience with our service, the number of users and transactions managed by our service, the amount of data transferred, processed and stored by us, the number of locations where our service is being accessed, and the number of processes and systems managed by our service on behalf of these customers have in some cases, and may in the future, expand rapidly. In order to ensure that we meet the performance and other requirements of these large enterprise

customers, we intend to continue to make significant investments to develop and implement new technologies in our service and cloud infrastructure operations. These technologies, which include databases, applications and server optimizations, network and hosting strategies, and automation, are often advanced, complex, new and untested. We may not be successful in developing or implementing these technologies. To the extent that we do not effectively scale our service and operations to maintain performance as our customers expand their use of our service, our business and operating results may be harmed.

***If we fail to integrate our service with a variety of operating systems, software applications and hardware that are developed by others, our service may become less marketable and less competitive or obsolete, and our operating results would be harmed.***

Our service must integrate with a variety of network, hardware and software platforms, and we need to continuously modify and enhance our platform to adapt to changes in cloud-enabled hardware, software, networking, browser and database technologies. Any failure of our service to operate effectively with future infrastructure platforms and technologies could reduce the demand for our service, resulting in customer dissatisfaction and harm to our business. If we are unable to respond to these changes in a cost-effective manner, our service may become less marketable and less competitive or obsolete and our operating results may be negatively impacted. In addition, an increasing number of individuals within the enterprise are utilizing mobile devices to access the Internet and corporate resources and to conduct business. If we cannot effectively make our service available on these mobile devices and offer the information services and functionality required by enterprises that widely use mobile devices, we may experience difficulty attracting and retaining customers.

***Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our service.***

Increasing our customer base and achieving broader market acceptance of our service will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities. We are substantially dependent on our direct sales force to obtain new customers. From June 30, 2011 to March 31, 2012, our sales and marketing organization increased from 140 to 270 employees. We plan to continue to expand our direct sales force both domestically and internationally. We believe that there is significant competition for direct sales personnel with the sales skills and technical knowledge that we require. Our ability to achieve significant revenue growth in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of direct sales personnel. New hires require significant training and time before they achieve full productivity, particularly in new sales territories. Our recent hires and planned hires may not become as productive as quickly as we would like, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. Because we do not have a long history of expansion in our sales force, we cannot predict whether or to what extent our sales will increase as we expand our sales force or how long it will take for sales personnel to become productive. Moreover, we do not have significant experience as an organization developing and implementing overseas marketing campaigns, and such campaigns may be expensive and difficult to implement. Our business will be harmed if our expansion efforts do not generate a significant increase in revenues.

***Our current management team is new and if we lose key members of our management team or are unable to attract and retain executives and employees we need to support our operations and growth, our business may be harmed.***

Each of our executive officers either joined us recently or has taken on a new role in the organization. These changes in our executive management team may be disruptive to our business. Our success depends substantially upon the continued services of this new group of executive officers, particularly Frank Sloodman, our Chief Executive Officer, who joined us in May 2011, and Frederic B. Luddy, our founder and Chief Product Officer, who are critical to our vision, strategic direction, culture, services and technology. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Our

executive officers are generally employed on an at-will basis, which means that our executive officers could terminate their employment with us at any time. The loss of one or more of our executive officers or the failure by our executive team to effectively work with our employees and lead our company could harm our business.

In the technology industry, there is substantial and continuous competition for engineers with high levels of experience in designing, developing and managing software and Internet-related solutions, as well as competition for sales executives and operations personnel. We may not be successful in attracting and retaining qualified personnel. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In particular, competition for experienced software and cloud infrastructure engineers in San Diego, San Jose, Seattle, London and Amsterdam, our primary operating locations, is intense. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be harmed.

***Our quarterly results may fluctuate, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.***

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow our stock, the price of our common stock could decline substantially. Some of the important factors that may cause our revenues, operating results and cash flows to fluctuate from quarter to quarter include:

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- the number of new employees added;
- the rate of expansion and productivity of our sales force;
- changes in the relative and absolute levels of professional services we provide;
- the cost, timing and management effort for the development of new services;
- the length of the sales cycle for our service;
- changes in our pricing policies whether initiated by us or as a result of competition;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- significant security breaches, technical difficulties or interruptions with our service;
- new solutions, products or changes in pricing policies introduced by our competitors;
- changes in foreign currency exchange rates;
- changes in effective tax rates;
- general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional subscriptions, delay a prospective customers' purchasing decision, or reduce the value of new subscription contracts, or affect renewal rates;
- changes in deferred revenue balances due to the seasonal nature of our customer invoicing, changes in the average duration of our customer agreements, the rate of renewals and the rate of new business growth;
- the timing of customer payments and payment defaults by customers;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- the impact of new accounting pronouncements; and
- the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards ratably over their vesting schedules.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our operating results to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

***We expect our revenue growth rate to decline, and as our costs increase, we may not be able to generate sufficient revenue to sustain our profitability over the long term.***

From fiscal 2009 to fiscal 2011, our revenues grew from \$19.3 million to \$92.6 million, which represents a compounded annual growth rate of 119%. We expect that, in the future, as our revenues increase to higher levels our revenue growth rate will decline. However, we may not be able to generate sufficient revenues to achieve and sustain profitability as we also expect our costs to increase in future periods. We expect to continue to expend substantial financial and other resources on:

- our technology infrastructure, including migrating from a managed hosting model to co-location facilities, enhancements to our cloud architecture and hiring of additional employees for our research and development team;
- software development, including investments in our software development team, the development of new features and the improvement of the scalability, availability and security of our service;
- sales and marketing, including a significant expansion of our direct sales organization;
- international expansion in an effort to increase our customer base and sales; and
- general administration, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenues or growth in our business. If we fail to continue to grow our revenues and overall business, our operating results and business would be harmed.

***Because we recognize revenues from our subscription service over the subscription term, downturns or upturns in new sales will not be immediately reflected in our operating results.***

We generally recognize revenues from customers ratably over the terms of their subscriptions, which on average are approximately 30 months in duration for initial contract terms, although terms can range from 12 to 120 months. As a result, most of the revenues we report in each quarter are derived from the recognition of deferred revenues relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter will likely have only a small impact on our revenue results for that quarter. Such a decline, however, will negatively affect our revenues in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our service, and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new customers must be recognized over the applicable subscription term. In addition, we may be unable to adjust our cost structure to reflect the changes in revenues.

***If we are unable to successfully manage the growth of our professional services business and improve our profit margin from these services, our operating results will be harmed.***

Our professional services business, which performs implementation and configuration of our subscription service for our customers, has grown as our revenues from subscriptions have grown. We believe our investment in professional services facilitates the adoption of our subscription service. As a result, our sales efforts have been focused primarily on our subscription service, rather than the profitability of our professional services business. Historically, our pricing for professional services was predominantly on a fixed-fee basis and the cost of the time and materials incurred to complete these services were greater than the amount charged to the customer. These factors contributed to our negative gross profit percentages from professional services and other

of (220)%, (202)% and (21)% for fiscal 2009, 2010 and 2011, respectively, (43)% and (51)% for the six months ended December 31, 2010 and 2011, respectively, and (19)% and (30)% for the three months ended March 31, 2011 and 2012, respectively. The improvement in gross profit percentages was due in part to the adoption of new revenue recognition accounting guidance commencing on July 1, 2010. In addition, in December 2011, we began shifting our pricing model to a time-and-materials basis. In the future, we intend to price our professional services based on the anticipated cost of those services and, as a result, expect to improve the gross profit percentage of our professional services business. If we are unable to successfully transition to a time-and-materials based pricing model and manage the growth of our professional services business, our operating results, including our profit margins, will be harmed. In addition, the shift to this new pricing model may cause our sales cycle to lengthen.

***We may be sued by third parties for alleged infringement of their proprietary rights.***

There is considerable patent and other intellectual property development activity in our industry. Our success depends in part on not infringing upon the intellectual property rights of others. From time to time, our competitors or other third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In the future, we may receive claims that our applications and underlying technology infringe or violate the claimant's intellectual property rights. However, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our service, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners in connection with any such litigation and to obtain licenses, modify our service or refund fees, which could further exhaust our resources. In addition, we may pay substantial settlement costs to resolve claims or litigation, whether or not legitimately or successfully asserted against us, which could include royalty payments in connection with any such litigation and to obtain licenses, modify our service or refund fees, which could further exhaust our resources. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. Such disputes could also disrupt our service, causing an adverse impact to our customer satisfaction and related renewal rates.

***Our use of "open source" software could harm our ability to sell our service and subject us to possible litigation.***

A significant portion of the technologies licensed or developed by us incorporate so-called "open source" software, and we may incorporate open source software into other services in the future. We attempt to monitor our use of open source software in an effort to avoid subjecting our service to conditions we do not intend; however, there can be no assurance that our efforts have been or will be successful. There is little or no legal precedent governing the interpretation of the terms of open source licenses, and therefore the potential impact of these terms on our business is uncertain and enforcement of these terms may result in unanticipated obligations regarding our service and technologies. For example, depending on which open source license governs open source software included within our service or technologies, we may be subjected to conditions requiring us to offer our service to users at no cost; make available the source code for modifications and derivative works based upon, incorporating or using the open source software; and license such modifications or derivative works under the terms of the particular open source license.

If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal costs defending ourselves against such allegations, we could be subject to significant damages or be enjoined from the distribution of our service. In addition, if we combine our proprietary software with open source software in a certain manner, under some open source licenses we could be required to release the source code of our proprietary software, which could substantially help our competitors develop solutions that are similar to or better than our service.

***Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.***

Our success depends to a significant degree on our ability to protect our proprietary technology and our brand. We rely on a combination of copyright, trade secret and other intellectual property laws and confidentiality procedures to protect our proprietary rights. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. We have only recently begun to develop a strategy to seek, and may be unable to obtain, patent protection for our technology. In addition, any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We may be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

***Our growth depends in part on the success of our strategic relationships with third parties and their continued performance.***

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. In particular, we depend on a limited number of third parties to provide a majority of our implementation services. Our strategy is to work with third parties to increase the breadth of capability and the depth of capacity for delivery of these services to our customers.

We intend to expand our relationships with third parties, such as implementation partners, systems integrators and managed services providers. Identifying these and other partners, and negotiating and documenting relationships with them, require significant time and resources. Our agreements with partners are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing solutions. Our competitors may be effective in providing incentives to third parties, including our partners, to favor their solutions or to prevent or reduce subscriptions to our service either by disrupting our relationship with existing customers or by limiting our ability to win new customers. In addition, global economic conditions could harm the businesses of our partners, and it is possible that they may not be able to devote the additional resources we expect to the relationship. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results would suffer. Even if we are successful, we cannot assure you that these relationships will result in greater customer usage of our service or increased revenues.

If a customer is not satisfied with the quality of work performed by us or a third party, we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction with our professional services could damage our ability to obtain additional revenues from that customer.

***Sales to customers outside North America expose us to risks inherent in international sales.***

Because we sell our service throughout the world, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in North America. Sales outside of North America represented 25%, 29% and 28% of our total revenues for fiscal 2011, the six months ended December 31, 2011 and the three months ended March 31, 2012, respectively, and we intend to continue to expand our international sales efforts. Our business and future prospects depend on increasing our international sales as a percentage of our total revenues, and the failure to grow internationally will harm our business. The risks and challenges associated with sales to customers outside North America are different in some ways from those associated with sales in North America and we have a limited history addressing those risks and meeting those challenges. The risks and challenges inherent with international sales include:

- localization of our service, including translation into foreign languages and associated expenses;
- differing laws and business practices, which may favor local competitors;
- longer sales cycles;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- treatment of revenues from international sources and changes to tax codes, including being subject to foreign tax laws and being liable for paying withholding income or other taxes in foreign jurisdictions;
- regional data privacy laws that apply to the transmission of our customers' data across international borders;
- foreign currency fluctuations and controls;
- different pricing environments;
- difficulties in staffing and managing foreign operations;
- different or lesser protection of our intellectual property;
- longer accounts receivable payment cycles and other collection difficulties;
- regional economic conditions; and
- regional political conditions.

Any of these factors could negatively impact our business and results of operations.

***We face exposure to foreign currency exchange rate fluctuations.***

We conduct significant transactions, including intercompany transactions, in currencies other than the United States dollar or the functional operating currency of the transactional entities. In addition, our international subsidiaries maintain significant net assets that are denominated in currencies other than the functional operating currencies of these entities. Accordingly, changes in the value of foreign currencies relative to the United States dollar can affect our revenues and operating results due to transactional and translational remeasurement that is reflected in our earnings. We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.



***Weakened global economic conditions may harm our industry, business and results of operations.***

Our overall performance depends in part on worldwide economic conditions, which may remain challenging for the foreseeable future. Global financial developments seemingly unrelated to us or the IT industry may harm us. The United States and other key international economies have been impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our service, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions, or affect renewal rates, all of which could harm our operating results.

***Changes in laws, regulations and standards related to the Internet may cause our business to suffer.***

Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws and regulations affecting data privacy and the use of the Internet as a commercial medium. Industry organizations also regularly adopt and advocate for new standards in this area. For instance, we believe increased regulation is likely in the area of data privacy, and changing laws, regulations and standards applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially restricting our ability to store, process and share data with our customers. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet, commerce conducted via the Internet or validation that particular processes follow the latest standards. These changes could limit the viability of Internet-based services such as ours. If we are not able to adjust to changing laws, regulations and standards related to the Internet, our business may be harmed.

***Unanticipated changes in our effective tax rate could harm our future results.***

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the valuation of deferred tax assets and liabilities and changes in federal, state or international tax laws and accounting principles. Increases in our effective tax rate would reduce our profitability or in some cases increase our losses.

In addition, we may be subject to income tax audits by many tax jurisdictions throughout the world, many of which have not established clear guidance on the tax treatment of SaaS-based companies. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

***Natural disasters and other events beyond our control could harm our business.***

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our service to our customers, and could decrease demand for our service. The majority of our research and development activities, corporate headquarters, information technology systems, and other critical business operations are located near major seismic faults in California. Customer data could be lost, significant recovery time could be required to resume operations and our financial condition and operating results could be harmed in the event of a major earthquake or catastrophic event.

***We are an “emerging growth company,” and any decision on our part to comply with certain reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act enacted in April 2012, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although, if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of June 30 of any year before the end of that five-year period, we would cease to be an “emerging growth company” as of the following December 31. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under Section 107(b) of the Jumpstart Our Business Startups Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

***We will incur increased costs as a result of operating as a public company and our management will have to devote substantial time to public company compliance obligations.***

As a public company and particularly after we cease to be an emerging growth company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission, or SEC, and our stock exchange, has imposed various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance requirements and any new requirements that the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may impose on public companies. Moreover, these rules and regulations, along with compliance with accounting principles and regulatory interpretations of such principles, have increased and will continue to increase our legal, accounting and financial compliance costs and have made and will continue to make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees, or as executive officers.

***If we do not remediate material weaknesses in our internal control over financial reporting or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.***

Prior to completion of this offering, we have been a private company and historically had limited accounting personnel to adequately execute our accounting processes and other supervisory resources with which to address our internal control over financial reporting. This lack of adequate accounting resources contributed to audit adjustments to our financial statements in the past.

In connection with our preparation of the financial statements for the year ended June 30, 2011 and the six months ended December 31, 2011, our independent registered public accounting firm identified control

deficiencies in our internal control that constituted material weaknesses. A material weakness is defined under the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected and corrected on a timely basis. The material weaknesses our independent registered public accounting firm identified related to the design and operation of policies and procedures for accounting and reporting control processes, performance of account review and analysis, the development and review of complex judgments and estimates, the preparation of the provision for income taxes and the identification, communication and accounting of significant contracts and agreements. These material weaknesses, which contributed to multiple audit adjustments, primarily resulted from our failure to maintain a sufficient number of personnel with an appropriate level of knowledge, experience and training in the application of U.S. generally accepted accounting principles, or GAAP.

We are in the process of implementing measures designed to improve our internal control over financial reporting to remediate these material weaknesses. During the six months ended December 31, 2011, we hired a new Chief Financial Officer, a new Vice President of Finance and several new finance and accounting managers which significantly increases our finance and accounting team's experience in GAAP and financial reporting for publicly traded companies. In September 2011, we engaged a third-party tax firm and in February 2012, we hired a Senior Manager of Internal Audit. In March 2012, we hired a Vice President of Tax to assist with the accounting for income taxes and review of complex tax accounting matters. In addition, we expect to retain consultants to advise us on making further improvements to our internal controls related to these accounting areas. We believe that these additional resources enable us to broaden the scope and quality of our internal review of underlying information related to financial reporting and to further enhance our financial review procedures, including both the accounting processes for income taxes and significant contracts and agreements.

We cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to remediate the material weaknesses in our internal control over financial reporting or to avoid potential future material weaknesses.

The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. In particular, beginning with the year ending on December 31, 2013, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404(a) of the Sarbanes-Oxley Act. Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, that must be performed may reveal other material weaknesses or that the material weaknesses described above have not been fully remediated. If we do not remediate the material weaknesses described above, or if other material weaknesses are identified or we are not able to comply with the requirements of Section 404 in a timely manner, our reported financial results could be materially misstated or could subsequently require restatement, we could receive an adverse opinion regarding our internal controls over financial reporting from our independent registered public accounting firm and we could be subject to investigations or sanctions by regulatory authorities, which would require additional financial and management resources, and the market price of our stock could decline.

***A portion of our revenues are generated by sales to government entities and heavily regulated organizations, which are subject to a number of challenges and risks.***

A portion of our sales are to governmental agencies. Additionally, many of our current and prospective customers, such as those in the financial services and health care industries, are highly regulated and may be required to comply with more stringent regulations in connection with subscribing to and implementing our service. Selling to these entities can be highly competitive, expensive and time consuming, often requiring

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significant upfront time and expense without any assurance that we will successfully complete a sale. Government and highly regulated entities often require contract terms that differ from our standard arrangements and impose compliance requirements that are complicated, require preferential pricing or “most favored nation” terms and conditions, or are otherwise time consuming and expensive to satisfy. Due to the additional requirements of the U.S. federal government, we are in the process of establishing data centers that are compliant with the Federal Information Security Management Act. The additional costs associated with providing our service to government and highly regulated customers could harm our margins. Moreover, changes in the underlying regulatory conditions that affect these types of customers could harm our ability to efficiently provide our service to them and to grow or maintain our customer base.

***We may acquire or invest in companies, which may divert our management’s attention, result in additional dilution to our stockholders, and we may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.***

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our service offerings or our ability to provide services in international locations, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their software is not easily adapted to work with ours, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

### **Risks Relating to Ownership of Our Common Stock and this Offering**

***The market price of our common stock is likely to be volatile and could subject us to litigation.***

Prior to this offering, there has not been a public market for our common stock. We cannot assure you that an active trading market for our common stock will develop following this offering. You may not be able to sell your shares quickly or at the market price if trading in our common stock is not active. The initial public offering price for the shares will be determined by negotiations between us and representatives of the underwriters and may not be indicative of prices that will prevail in the trading market following the offering. In addition, the trading prices of the securities of technology companies in general have been highly volatile. Accordingly, the

market price of our common stock is likely to be subject to wide fluctuations. Factors affecting the market price of our common stock include:

- variations in our operating results, earnings per share, cash flows from operating activities, deferred revenue, and other financial metrics and non-financial metrics, and how those results compare to analyst expectations;
- forward-looking statements related to future revenues and earnings per share;
- the net increases in the number of customers, either independently or as compared with published expectations of industry, financial or other analysts that cover our company;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new solutions or enhancements to services, strategic alliances or significant agreements by us or by our competitors;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- disruptions in our service due to computer hardware, software or network problems, security breaches, or other man-made or natural disasters;
- the economy as a whole, market conditions in our industry, and the industries of our customers;
- trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;
- the size of our market float; and
- any other factors discussed herein.

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities class action litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of our management's attention and resources.

***We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.***

Our management will have broad discretion in the application of the net proceeds from this offering, including for any of the purposes described in the section titled "Use of Proceeds," and you will not have the opportunity as part of your investment decision to assess whether the net proceeds are being used appropriately. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

***We do not intend to pay dividends on our common stock so any returns will be limited to changes in the value of our common stock.***

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate

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declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends on our common stock may be prohibited or limited by the terms of any future debt financing arrangement. Any return to stockholders will therefore be limited to the increase, if any, of our stock price.

***Our directors, officers and principal stockholders beneficially own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

As of March 31, 2012, our directors, officers, five percent or greater stockholders and their respective affiliates beneficially owned in the aggregate approximately 91% of our outstanding voting stock and, upon completion of this offering, that same group will hold in the aggregate approximately % of our outstanding voting stock (assuming no exercise of the underwriters' over-allotment option), including approximately % controlled by funds affiliated with JMI Equity. Therefore, after this offering these stockholders will continue to have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders will be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

***If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.***

The assumed initial public offering price is substantially higher than the net tangible book value per share of our common stock will be immediately after this offering. Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the book value of our tangible assets after subtracting our liabilities. As a result, investors purchasing common stock in this offering will incur immediate dilution of \$ per share, assuming an initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus.

This dilution is due to the substantially lower price paid by our investors who purchased shares prior to this offering as compared to the price offered to the public in this offering, and any previous exercise of stock options granted to our employees. In addition, as of March 31, 2012, options to purchase 36,958,079 shares of our common stock at a weighted average exercise price of \$2.91 per share and 1,000,000 RSUs were outstanding. The exercise of any of these options and settlement of any of these RSUs would result in additional dilution. As a result of the dilution to investors purchasing shares in this offering, investors may receive less than the purchase price paid in this offering, if anything, in the event of our liquidation.

***Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.***

We may need additional capital in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in subsequent transactions, investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering.

***Sales of a substantial number of shares of our common stock in the public market by our existing stockholders following this offering could cause our stock price to fall.***

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise

capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

All of our officers and directors and the holders of substantially all of our capital stock are subject to lock-up agreements with the underwriters of this offering that restrict the stockholders' ability to transfer shares of our common stock for at least 180 days from the date of this prospectus. The lock-up agreements limit the number of shares of common stock that may be sold immediately following this initial public offering. Subject to certain limitations, approximately shares will become eligible for sale upon expiration of the lock-up period. In addition, shares issued or issuable upon exercise of options vested as of the expiration of the lock-up period will be eligible for sale at that time. Sales of stock by these stockholders could have a material adverse effect on the trading price of our common stock.

Certain holders of shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act of 1933, as amended, or the Securities Act, subject to the 180-day lock-up arrangement described above. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

***Provisions in our restated certificate of incorporation and restated bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the market price of our common stock.***

Our restated certificate of incorporation and restated bylaws contain provisions that could depress the market price of our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions among other things:

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit the board of directors to establish the number of directors;
- provide that directors may only be removed "for cause" and only with the approval of 66 2/3% of our stockholders;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of "blank check" preferred stock that our board could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our restated bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on merger, business combinations and other transactions between us and holders of 15% or more of our common stock.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. All statements, other than statements of historical fact, contained in this prospectus, including statements regarding our future results of operations, financial position and cash flows, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “would,” “could,” “should,” “intend” and “expect” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of these forward-looking statements after the date of this prospectus or to conform these statements to actual results or revised expectations.



## INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the market in which we operate, including our general expectations, market position, market opportunity and market size, is based on information from various sources, including independent industry publications like those generated by Gartner, Inc. In presenting this information, we have also made assumptions based on such data and other similar sources and on our knowledge of, and our experience to date in, the markets for our service and related solutions. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. Although neither we nor the underwriters have independently verified the accuracy or completeness of any third-party information, we believe the market position, opportunity and market size information included in this prospectus is reliable and the conclusions contained in the third-party information are reasonable. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors” and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

The Gartner report, “Forecast: Enterprise Software Markets, Worldwide, 2009-2016, 1Q12 Update,” March, 2012, described herein, or the Gartner Report, represents data, research opinion or viewpoints published as part of a syndicated subscription service, by Gartner, and may not be representations of fact. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report are subject to change without notice.

## USE OF PROCEEDS

We estimate that our net proceeds from the sale of the shares of common stock offered by us will be approximately \$       million, assuming an initial public offering price of \$       per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds from this offering will be approximately \$       million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of common stock by the selling stockholders.

A \$1.00 increase (decrease) in the assumed initial public offering price of \$       per share would increase (decrease) our net proceeds from this offering by approximately \$       million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions.

The principal purposes of this offering are to create a public market for our common stock, obtain additional capital, facilitate our future access to the public equity markets, increase awareness of our company among potential customers and improve our competitive position. While we have no specific plans at this time, we may use some of the proceeds from this offering to make additions to and expand our data center operations, and to build out our office facilities. We intend to use the net proceeds to us from this offering for working capital and other general corporate purposes. Additionally, we may choose to expand our current business through acquisitions of, or investments in, other businesses, products or technologies, using cash or shares of our common stock. However, we have no commitments with respect to any such acquisitions or investments at this time.

Pending the use of proceeds from this offering, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities. Our management will have broad discretion in the application of the net proceeds from this offering and investors will be relying on the judgment of our management regarding the application of the proceeds.

## DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors.

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of March 31, 2012:

- on an actual basis;
- on a pro forma basis to give effect to the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 83,703,016 shares of common stock and the filing of our restated certificate of incorporation upon the closing of this offering; and
- on a pro forma as adjusted basis to reflect the pro forma adjustments described above and the sale and issuance of shares of common stock in this offering by us, and the receipt of the net proceeds from our sale of                      shares at an assumed initial public offering price of \$                      per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The information below is illustrative only and our cash and our capitalization following the closing of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read the information in this table together with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	As of March 31, 2012		
	Actual	Pro Forma	Pro Forma as Adjusted <sup>(1)</sup>
	(in thousands, except share and per share data)		
Cash and cash equivalents	\$ 80,140	\$ 80,140	\$
Series C redeemable convertible preferred stock, \$0.001 par value: 983,606 shares authorized, 983,606 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	5,962	—	
Series A redeemable convertible preferred stock, \$0.001 par value: 2,500,000 shares authorized, 2,500,000 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	3,855	—	
Series B redeemable convertible preferred stock, \$0.001 par value: 4,040,488 shares authorized, 3,988,636 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	7,265	—	
Series D convertible preferred stock, \$0.001 par value: 3,830,379 shares authorized; 2,990,635 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	51,245	—	
Stockholders’ equity (deficit):			
Preferred stock, \$0.001 par value: no shares authorized, issued or outstanding, actual; 10,000,000 shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted	—	—	
Common stock, \$0.001 par value: 200,000,000 shares authorized, 27,586,754 shares issued and outstanding, actual; 600,000,000 shares authorized, 111,289,770 shares issued and outstanding, pro forma; 600,000,000 shares authorized and                      shares issued and outstanding, pro forma as adjusted	28	111	
Additional paid-in capital	32,783	101,027	
Accumulated other comprehensive income	771	771	
Accumulated deficit	(73,780)	(73,780)	
Total stockholders’ equity (deficit)	(40,198)	28,129	
Total capitalization	\$ 28,129	\$ 28,129	\$

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- (1) A \$1.00 increase (decrease) in the assumed initial public offering price of \$        per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted amount of each of cash, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$        million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions. Similarly, each increase (decrease) of one million shares in the number of shares offered by us would increase (decrease), cash, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$        million, assuming the assumed initial public offering price remains the same and after deducting the underwriting discounts and commissions.

The number of shares of our common stock to be outstanding after this offering is based on 111,289,770 shares of common stock outstanding as of March 31, 2012 and excludes:

- 36,958,079 shares of common stock issuable upon the exercise of outstanding options with a weighted-average exercise price of \$2.91 per share and 1,000,000 shares of common stock issuable pursuant to outstanding RSUs under our 2005 Stock Plan;
- 4,300,809 shares of common stock reserved for future issuance under our 2005 Stock Plan; provided, however, that immediately prior to the closing of this offering, any remaining shares available for issuance under our 2005 Stock Plan will be added to the shares reserved under our 2012 Equity Incentive Plan and we will cease granting awards under the 2005 Stock Plan;
- 9,600,000 additional shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective on the date immediately prior to the date on which the registration statement is declared effective; and
- 25,000,000 shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective upon the closing of this offering.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after our initial public offering.

As of March 31, 2012, our pro forma net tangible book value was \$28.1 million, or \$0.25 per share of common stock. Pro forma net tangible book value per share represents the amount of our tangible assets less our liabilities divided by the total number of shares of our common stock outstanding, after giving effect to the conversion of our convertible preferred stock into an aggregate of 83,703,016 shares of our common stock upon the closing of this offering.

Our pro forma as adjusted net tangible book value as of March 31, 2012 was \$       million, or \$       per share of common stock. Pro forma as adjusted net tangible book value per share reflects the pro forma adjustments described above and further reflects the sale of       shares of common stock by us in this offering at an assumed initial public offering price of \$       per share, which is the midpoint of the price range set forth on the cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. This represents an immediate increase in pro forma as adjusted net tangible book value of \$       per share to existing stockholders and immediate dilution of \$       per share to new investors purchasing shares in the offering.

The following table illustrates this per share dilution:

Assumed initial public offering price per share	\$
Pro forma net tangible book value per share as of March 31, 2012	\$0.25
Increase in net tangible book value per share attributable to new investors in this offering	_____
Pro forma as adjusted net tangible book value per share after this offering	_____
Dilution in pro forma as adjusted net tangible book value per share to new investors in this offering	<u>\$</u>

A \$1.00 increase (decrease) in the assumed initial public offering price of \$       per share would increase (decrease) our pro forma as adjusted net tangible book value as of March 31, 2012 by approximately \$       million, the pro forma as adjusted net tangible book value per share after this offering by \$       and the dilution in pro forma as adjusted net tangible book value per share to new investors in this offering by \$       , assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions. Similarly, each increase (decrease) of one million shares in the number of shares of common stock offered by us would increase (decrease) the pro forma as adjusted net tangible book value per share after this offering by \$       , and the dilution in pro forma net tangible book value per share to new investors in this offering by \$       , assuming the assumed initial public offering price remains the same and after deducting underwriting discounts and commissions. If the underwriters exercise their over-allotment option in full, the pro forma as adjusted net tangible book value per share after this offering would be \$       per share, and the dilution in pro forma net tangible book value per share to new investors in this offering would be \$       per share of common stock.

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The following table summarizes, on a pro forma as adjusted basis as of March 31, 2012, the differences between the number of shares of common stock purchased from us, the total cash consideration and the average price per share paid to us by existing stockholders and by new investors purchasing shares in this offering, at an assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, before deducting underwriting discounts and commissions and estimated offering expenses payable by us:

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders		%	\$	%	\$
New investors					
Total		100%	\$	100%	

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) total consideration paid to us by new investors participating in this offering by approximately \$ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions.

If the underwriters' over-allotment option is exercised in full, the number of shares of common stock held by existing stockholders will be reduced to % of the total number of shares of common stock to be outstanding after this offering, and the number of shares of common stock held by investors participating in this offering will be further increased to , or % of the total number of shares of common stock to be outstanding after this offering.

Sales of shares of common stock by the selling stockholders in this offering will reduce the number of shares of common stock held by existing stockholders to , or approximately % of the total shares of common stock outstanding after this offering, and will increase the number of shares held by new investors to , or approximately % of the total shares of common stock outstanding after this offering.

The table and discussion above are based on 111,289,770 shares of common stock outstanding as of March 31, 2012, and exclude:

- 36,958,079 shares of common stock issuable upon the exercise of outstanding options with a weighted- average exercise price of \$2.91 per share and 1,000,000 shares of common stock issuable pursuant to outstanding RSUs under our 2005 Stock Plan;
- 4,300,809 shares of common stock reserved for future issuance under our 2005 Stock Plan; provided, however, that immediately prior to the closing of this offering, any remaining shares available for issuance under our 2005 Stock Plan will be added to the shares reserved under our 2012 Equity Incentive Plan and we will cease granting awards under the 2005 Stock Plan;
- 9,600,000 additional shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective on the date immediately prior to the date on which the registration statement is declared effective; and
- 25,000,000 shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective upon the closing of this offering.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this prospectus. The selected consolidated financial data in this section are not intended to replace our consolidated financial statements and the related notes. Our historical results are not necessarily indicative of our future results.

The selected consolidated statements of operations data for fiscal 2009, 2010 and 2011 and for the six months ended December 31, 2011 and the selected consolidated balance sheet data as of June 30, 2010 and 2011 and as of December 31, 2011 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated balance sheet data as of June 30, 2009 is derived from our audited consolidated financial statements which are not included in this prospectus. The consolidated statement of operations data for the six months ended December 31, 2010 and the three months ended March 31, 2011 and 2012, and the unaudited selected consolidated balance sheet data as of March 31, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of operations data for fiscal 2007 and 2008 and the consolidated balance sheet data as of June 30, 2007 and 2008 are derived from our unaudited consolidated financial statements which are not included in this prospectus. We have prepared the unaudited financial information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, we consider necessary for a fair statement of the financial information set forth in those statements.

	Fiscal Year Ended June 30,					Six Months Ended December 31,		Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2010	2011	2011	2012
(in thousands, except share and per share data)									
<b>Consolidated Statements of Operations Data:</b>									
Revenues <sup>(1)</sup> :									
Subscription	\$ 1,834	\$ 8,644	\$17,841	\$ 40,078	\$79,191	\$ 33,191	\$ 64,886	\$ 21,224	\$ 39,541
Professional services and other	29	137	1,474	3,251	13,450	4,753	8,489	3,988	7,890
Total revenues	1,863	8,781	19,315	43,329	92,641	37,944	73,375	25,212	47,431
Cost of revenues <sup>(2)(3)</sup> :									
Subscription	397	1,838	3,140	6,378	15,311	6,096	15,073	4,451	11,012
Professional services and other	253	2,717	4,711	9,812	16,264	6,778	12,850	4,763	10,224
Total cost of revenues	650	4,555	7,851	16,190	31,575	12,874	27,923	9,214	21,236
Gross profit	1,213	4,226	11,464	27,139	61,066	25,070	45,452	15,998	26,195
Operating expenses <sup>(2)(3)</sup> :									
Sales and marketing	2,314	6,142	8,499	19,334	34,123	13,728	32,501	8,309	19,307
Research and development	2,682	2,098	2,433	7,194	7,004	2,758	7,030	1,885	6,043
General and administrative	356	1,854	6,363	28,810	9,379	3,417	10,084	2,680	6,427
Total operating expenses	5,352	10,094	17,295	55,338	50,506	19,903	49,615	12,874	31,777
Income (loss) from operations	(4,139)	(5,868)	(5,831)	(28,199)	10,560	5,167	(4,163)	3,124	(5,582)
Interest and other income (expense), net	170	10	(27)	(1,226)	606	289	(1,446)	252	492
Income (loss) before provision for income taxes	(3,969)	(5,858)	(5,858)	(29,425)	11,166	5,456	(5,609)	3,376	(5,090)
Provision for income taxes	2	23	48	280	1,336	653	1,075	385	550
Net income (loss)	(3,971)	(5,881)	(5,906)	(29,705)	9,830	4,803	(6,684)	2,991	(5,640)

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	Fiscal Year Ended June 30,					Six Months Ended December 31,		Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2010	2011	2011	2012
	(in thousands, except share and per share data)								
Net income (loss) per share attributable to common stockholders <sup>(4)</sup> :									
Basic	\$ (0.11)	\$ (0.16)	\$ (0.17)	\$ (1.31)	\$ 0.09	\$ 0.04	\$ (0.33)	\$ 0.03	\$ (0.23)
Diluted	\$ (0.11)	\$ (0.16)	\$ (0.17)	\$ (1.31)	\$ 0.08	\$ 0.04	\$ (0.33)	\$ 0.03	\$ (0.23)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders <sup>(4)</sup> :									
Basic	40,000,000	40,115,383	39,039,066	23,157,576	18,163,977	17,156,445	21,104,219	18,702,229	25,123,582
Diluted	40,000,000	40,115,383	39,039,066	23,157,576	28,095,486	27,622,357	21,104,219	28,368,105	25,123,582
Pro forma net income (loss) per share attributable to common stockholders <sup>(4)</sup> :									
Basic					\$ 0.09		\$ (0.06)		\$ (0.05)
Diluted					\$ 0.09		\$ (0.06)		\$ (0.05)
Pro forma weighted-average shares used to compute pro forma net income (loss) per share attributable to common stockholders <sup>(4)</sup> :									
Basic					103,617,973		106,558,215		108,826,598
Diluted					113,633,033		106,558,215		108,826,598

- (1) Revenues for fiscal 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012 reflect the prospective adoption of new revenue accounting guidance commencing on July 1, 2010. As a result of this guidance, we separately allocate value for multiple element contracts between our subscription revenues and professional services revenues based on the best estimate of selling price. Additionally, we recognize professional services revenues as the services are delivered. Please refer to Note 2 to our consolidated financial statements for further discussion of our revenue recognition policies.
- (2) Stock-based compensation included in the statements of operations above was as follows:

	Fiscal Year Ended June 30,					Six Months Ended December 31,		Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2010	2011	2011	2012
	(in thousands)								
Cost of revenues:									
Subscription	\$ —	\$ 3	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 156	\$ 532
Professional services and other	1	5	11	28	117	37	193	38	192
Sales and marketing	8	22	45	277	1,004	431	2,010	288	1,471
Research and development	3	12	50	90	468	207	704	143	661
General and administrative	5	14	15	102	817	221	2,056	130	1,062

- (3) Operating expenses for fiscal 2009 reflect compensation expense of \$3.8 million related to the stock settlement of an outstanding promissory note in connection with our sale and issuance of Series C preferred stock. Cost of revenues and operating expenses for fiscal 2010 reflect compensation expense of \$0.7 million and \$30.1 million, respectively, related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.
- (4) Please refer to Note 13 to our consolidated financial statements for an explanation of the method used to calculate the historical and pro forma net income (loss) per share attributable to common stockholders and the number of shares used in the computation of the per share amounts.



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	As of June 30,					As of	As of
	2007	2008	2009	2010	2011	December 31,	March 31,
	(in thousands)					2011	2012
<b>Consolidated Balance Sheet Data:</b>							
Cash and cash equivalents	\$ 3,619	\$ 4,772	\$ 7,788	\$ 29,402	\$ 59,853	\$ 68,088	\$ 80,140
Working capital, excluding deferred revenue	5,647	5,401	10,090	33,080	75,801	95,033	117,695
Total assets	6,341	7,725	15,327	51,369	108,746	156,323	184,998
Deferred revenue, current and non-current portion	4,207	9,867	16,778	40,731	74,646	104,636	115,757
Convertible preferred stock	8,187	8,810	15,342	67,227	67,860	68,172	68,327
Total stockholders' equity (deficit)	(6,650)	(13,112)	(21,690)	(71,262)	(58,381)	(57,426)	(40,198)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Overview

ServiceNow is a leading provider of cloud-based services to automate enterprise IT operations. Our service includes a suite of applications built on our proprietary platform that automates workflow and integrates related business processes. We focus on transforming enterprise IT by automating and standardizing business processes and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, to lower operational costs and to enhance efficiency. Additionally, our customers use our extensible platform to build custom applications for automating activities unique to their business requirements.

We offer our service under a SaaS business model. Our subscription fee includes the use of our service and our technical support and management of the hosting infrastructure. We provide a scaled pricing model based on the number of users, in which the subscription price per user decreases as the number of users increases. We generally bill our customers annually in advance. We generate sales through our direct sales team and indirectly through channel partners and third-party referrals. We also generate revenues from professional services for implementation and training.

Many customers initially subscribe to our service to solve a specific and immediate problem. Once their problem is solved, many of our customers deploy additional applications as they become more familiar with our service and apply it to new IT processes. In addition, some customers adopt our platform to build applications that automate various processes for business uses outside of IT such as human resources, facilities and quality control management. A majority of our revenues come from large global enterprise customers. Our total customers grew 61% from 668 as of March 31, 2011 to 1,074 as of March 31, 2012.

We were founded in 2004 and entered into our first commercial contract in 2005. To date, we have funded our business primarily with cash flows from operations. We continue to invest in the development of our service, infrastructure and sales and marketing to drive long-term growth. In 2011, we significantly changed our executive management team. We hired a new Chief Executive Officer in May 2011, and our founder became Chief Product Officer. We subsequently hired additional key executives across our entire organization including our Chief Financial Officer, Chief Technology Officer, Senior Vice President of Sales and Services, Senior Vice President of Development and Customer Support, Vice President of Human Resources and Vice President of Marketing. In addition, we increased our overall employee headcount from 375 as of June 30, 2011 to 729 as of March 31, 2012.

We have achieved significant revenue growth in recent periods. For the fiscal years ended June 30, 2010 and 2011, our revenues grew 114% from \$43.3 million to \$92.6 million. We incurred a net loss of \$29.7 million and generated net income of \$9.8 million for the fiscal years ended June 30, 2010 and 2011, respectively. For the six months ended December 31, 2010 and 2011, our revenues grew 93% from \$37.9 million to \$73.4 million. We generated net income of \$4.8 million and incurred a net loss of \$6.7 million for the six months ended December 31, 2010 and 2011, respectively. For the three months ended March 31, 2011 and 2012, our revenues grew 88% from \$25.2 million to \$47.4 million. We generated net income of \$3.0 million and incurred a net loss of \$5.6 million for the three months ended March 31, 2011 and 2012, respectively.

## **Fiscal Year End**

On February 3, 2012, our board of directors approved a change to our fiscal year-end from June 30 to December 31. Included in this prospectus is the transition period for the six months ended December 31, 2011. Accordingly, we present the consolidated balance sheets as of June 30, 2010 and 2011 and December 31, 2011, and the consolidated statements of comprehensive income, changes in convertible preferred stock and stockholders' deficit, and cash flows for the fiscal years ended June 30, 2009, 2010 and 2011 and the six months ended December 31, 2010 and 2011. References to "fiscal 2009", "fiscal 2010" and "fiscal 2011" still refer to the fiscal years ended June 30, 2009, 2010 and 2011, respectively.

## **Key Factors Affecting Our Performance**

*Total customers.* We believe total customers is a key indicator of our market penetration, growth and future revenues. We have aggressively invested in and intend to continue to invest in our direct sales force, as well as to pursue additional partnerships within our indirect sales channel. We generally define a customer as an entity with an active service contract as of the measurement date. In situations where there is a single contract that applies to entities with multiple subsidiaries or divisions, universities, or governmental organizations, each entity that has contracted for a separate production instance of our service is counted as a separate customer. Our total customers were 281, 460 and 771 as of June 30, 2009, 2010 and 2011, respectively, 602 and 974 as of December 31, 2010 and 2011, respectively and 668 and 1,074 as of March 31, 2011 and 2012, respectively.

*Investment in growth.* We have aggressively invested, and intend to continue to invest, in expanding our operations, increasing our headcount and developing technology to support our growth. We expect our total operating expenses to increase in the foreseeable future, particularly as we continue to expand our sales and hosting operations. We continue to invest in our sales and marketing organization to drive additional revenues and support the growth of our customer base. Any investments we make in our sales and marketing organization will occur in advance of experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas.

*Renewal rate.* We calculate our renewal rate by subtracting our attrition rate from 100%. Our attrition rate for a period is equal to the annual contract value from customers that are due for renewal in the period and did not renew, divided by the total annual contract value from all customers due for renewal during the period. Annual contract value is equal to the first twelve months of expected subscription revenues under a contract. We believe our renewal rate is an important metric to measure the long-term value of customer agreements and our ability to retain our customers. Our renewal rate was 94%, 95%, and 97% in fiscal 2009, 2010 and 2011, respectively, 99% and 97% in the six months ended December 31, 2010 and 2011, respectively, and 96% in both the three months ended March 31, 2011 and 2012.

*Upsells.* In order for us to continue to grow our business, it is important to generate additional revenue from existing customers. We believe there is significant opportunity to increase the number of subscriptions sold to current customers as customers become more familiar with our platform and adopt our applications to address additional business use cases. We believe our ability to upsell is a key factor affecting our ability to further penetrate our existing customer base. We monitor upsells by measuring the annual contract value of upsells signed in the period as a percentage of our total annual contract value of all contracts signed in the period. Upsells as a percentage of total annual contract value signed was 20%, 25% and 27% in fiscal 2009, 2010 and 2011, respectively, 25% and 28% in the six months ended December 31, 2010 and 2011, respectively, and 35% and 32% in the three months ended March 31, 2011 and 2012, respectively.

*Investment in infrastructure.* We intend to continue to make substantial investments in new equipment to support growth at our data centers and provide enhanced levels of service to our customers. We are transitioning from a managed service hosting model, where a third party manages most aspects of the operations of the hosting infrastructure, to a co-location model, where we will have more direct control over the infrastructure and its operation. We are also investing in enhancements to our cloud architecture, which are designed to provide our customers with enhanced data reliability and availability. We expect to complete these two transitions in the

second half of 2012. For purchases of equipment for use in our data centers, we made capital expenditures of \$3.1 million in the three months ended March 31, 2012 and anticipate making capital expenditures of approximately \$22.0 million during the remainder of fiscal 2012. Actual capital expenditures during 2012 may fluctuate from this estimate due to unforeseen circumstances, such as changes to our customer growth rate or project delays.

*Professional services model.* We believe our investment in professional services facilitates the adoption of our subscription service. As a result, our sales efforts have been focused primarily on our subscription service, rather than the profitability of our professional services business. Historically, our pricing for professional services was predominantly on a fixed-fee basis and the cost of the time and materials incurred to complete these services was greater than the amount charged to the customer. These factors contributed to our negative gross profit percentages from professional services of (220)%, (202)% and (21)% for fiscal 2009, 2010 and 2011, respectively, (43)% and (51)% for the six months ended December 31, 2010 and 2011, respectively, and (19)% and (30)% for the three months ended March 31, 2011 and 2012, respectively. The improvement in gross profit percentages was due in part to the adoption of new revenue recognition accounting guidance commencing on July 1, 2010. In addition, in December 2011, we began shifting our pricing model to a time-and-materials basis. In the future, we intend to price our professional services based on the anticipated cost of those services and as a result expect to improve the gross profit percentage of our professional services business.

*Platform adoption.* Our service includes access to our suite of applications, as well as access to our platform to develop custom applications. Though in the near term we expect our revenue growth to be primarily driven by the pace of adoption and penetration of our suite of applications, we are investing considerable resources to enhance the application development capabilities of our platform. We believe the adoption of our platform will enhance our ability to acquire new customers, to increase renewals and to increase upsells due to an increase in the number of authorized users per customer.

## **Components of Results of Operations**

### ***Revenues***

*Subscription revenues.* Subscription revenues are primarily comprised of fees which give customers access to our suite of on-demand applications, as well as access to our platform to build custom applications. Pricing includes multiple instances, hosting and support services, data backup and disaster recovery services, as well as future upgrades offered during the subscription period. In addition, we offer two separately licensed enabling technologies, Discovery and Runbook Automation. We typically invoice our customers for subscription fees in annual increments upon initiation of the initial contract or subsequent renewal. We generally enter into arrangements with customers to purchase subscriptions for a term greater than 12 months, with an average initial contract term of approximately 30 months. Our contracts are generally non-cancelable, though customers can terminate for breach if we materially fail to perform. Fees for subscription services are generally billed annually in advance.

We generate sales directly through our sales team and, to a lesser extent, through our channel partners. Sales to our channel partners are made at a discount and revenues are recorded at the discounted price when all revenue recognition criteria are met. In addition, we pay referral fees to third parties typically ranging from 10% to 20% of the first year's annual contract value. These fees are included in sales and marketing expense.

*Professional services and other revenues.* Professional services revenues consist of fees associated with the implementation and configuration of our subscription service. Other revenues include customer training and attendance fees for our Knowledge conferences. Historically, our pricing for professional services was predominantly on a fixed-fee basis. However, in December 2011, we began shifting our pricing model to a time-and-materials basis. Going forward, we anticipate the majority of our new business will be priced on a time-and-materials basis. Most of our professional services engagements span six to eight months. We typically bill for our fixed price professional services in two installments, with the first installment due up front and the

second installment due at either a specified future date (usually approximately three months from the contract start date) or upon completion of the services. Our time-and-materials professional services are generally billed monthly in arrears based on actual hours and expenses incurred. Typical payment terms provide our customers pay us within 30 days of invoice.

Prior to fiscal 2011, we recorded revenues from our professional services over a period commensurate with our subscription service contracts. However, the cost associated with our professional services engagements was recorded as the services were delivered, resulting in lower gross profit percentages in fiscal 2009 and 2010. On July 1, 2010, we adopted new revenue recognition accounting guidance on a prospective basis that enabled us to separately allocate value for our multiple element arrangements between our subscription revenues and professional services revenues, based on the best estimate of selling price. As a result, professional services revenues are recognized as the services are delivered, which is substantially the same period as the associated costs are incurred. This shift resulted in an increase to professional services and other revenues of \$5.5 million for fiscal 2011. Refer to “Critical Accounting Policies and Significant Judgments and Estimates” below for further discussion of our revenue recognition accounting policy.

**Backlog.** Backlog represents future amounts to be invoiced under our agreements. As of December 31, 2011 and March 31, 2012, we had backlog of approximately \$210 million and \$248 million, respectively. We expect backlog will change from period to period for several reasons, including the timing and duration of customer subscription and professional services agreements, varying billing cycles of subscription agreements, and the timing of customer renewals.

#### **Overhead Allocation**

Overhead associated with our facilities, IT costs and depreciation is allocated to our cost of revenues and operating expenses based on headcount.

#### **Cost of Revenues**

**Subscription cost of revenues.** Cost of subscription revenues primarily consists of expenses related to hosting our service and providing support. These expenses are comprised of data center capacity costs; personnel and related costs directly associated with our cloud infrastructure and customer support, including salaries, benefits, bonuses and stock-based compensation; allocated overhead; and third-party referral fees.

**Professional services and other cost of revenues.** Cost of professional services and other revenues consists primarily of personnel and related costs directly associated with our professional services and training departments, including salaries, benefits, bonuses and stock-based compensation; the costs of contracted third-party vendors; and allocated overhead.

Professional services associated with the implementation and configuration of our subscription service are performed directly by our services team, as well as by contracted third-party vendors. Fees paid up-front to our third-party vendors are deferred and amortized to cost of revenues as the services are delivered. Fees owed to our third-party vendors are accrued over the same requisite service period. Cost of revenues associated with our professional services engagements contracted with third-party vendors as a percentage of professional services and other revenues was 52%, 135% and 54% for fiscal 2009, 2010 and 2011, respectively, 70% and 64% for the six months ended December 31, 2010 and 2011, respectively, and 54% and 52% for the three months ended March 31, 2011 and 2012, respectively. Cost of revenues associated with our professional services engagements contracted with third-party vendors as a percentage of the total professional services and other cost of revenues was 16%, 45% and 45% for fiscal 2009, 2010 and 2011, respectively, 49% and 43% for the six months ended December 31, 2010 and 2011, respectively, and 45% and 40% for the three months ended March 31, 2011 and 2012, respectively.

#### **Sales and Marketing Expenses**

Sales and marketing expenses consist primarily of personnel and related costs directly associated with our sales and marketing staff, including salaries, benefits, bonuses, commissions and stock-based compensation.

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Other costs included in this expense are marketing and promotional events, including our Knowledge conferences, online marketing, product marketing and allocated overhead.

### **Research and Development Expenses**

Research and development expenses consist primarily of personnel and related costs directly associated with our research and development staff, including salaries, benefits, bonuses and stock-based compensation, and allocated overhead.

### **General and Administrative Expenses**

General and administrative expenses primarily consist of personnel and related costs for our executive, finance, legal, human resources and administrative personnel, including salaries, benefits, bonuses and stock-based compensation; legal, accounting and other professional services fees; other corporate expenses; and allocated overhead.

### **Provision for Income Taxes**

Provision for income taxes consists of federal, state and foreign income taxes. Due to cumulative losses, we maintain a valuation allowance against our deferred tax assets as of December 31, 2011. We consider all available evidence, both positive and negative, in assessing the extent to which a valuation allowance should be applied against our deferred tax assets.

### **Results of Operations**

To enhance comparability, the following table sets forth our results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	<b>Fiscal Year Ended June 30,</b>			<b>Six Months Ended December 31,</b>		<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>	<b>2012</b>
	<b>(in thousands)</b>						
<b>Revenues<sup>(1)</sup>:</b>							
Subscription	\$17,841	\$ 40,078	\$79,191	\$33,191	\$64,886	\$21,224	\$39,541
Professional services and other	1,474	3,251	13,450	4,753	8,489	3,988	7,890
Total revenues	19,315	43,329	92,641	37,944	73,375	25,212	47,431
<b>Cost of revenues<sup>(2)(3)</sup>:</b>							
Subscription	3,140	6,378	15,311	6,096	15,073	4,451	11,012
Professional services and other	4,711	9,812	16,264	6,778	12,850	4,763	10,224
Total cost of revenues	7,851	16,190	31,575	12,874	27,923	9,214	21,236
Gross profit	11,464	27,139	61,066	25,070	45,452	15,998	26,195
<b>Operating expenses<sup>(2)(3)</sup>:</b>							
Sales and marketing	8,499	19,334	34,123	13,728	32,501	8,309	19,307
Research and development	2,433	7,194	7,004	2,758	7,030	1,885	6,043
General and administrative	6,363	28,810	9,379	3,417	10,084	2,680	6,427
Total operating expenses	17,295	55,338	50,506	19,903	49,615	12,874	31,777
Income (loss) from operations	(5,831)	(28,199)	10,560	5,167	(4,163)	3,124	(5,582)
Interest and other income (expense), net	(27)	(1,226)	606	289	(1,446)	252	492
Income (loss) before provision for income taxes	(5,858)	(29,425)	11,166	5,456	(5,609)	3,376	(5,090)
Provision for income taxes	48	280	1,336	653	1,075	385	550
Net income (loss)	(5,906)	(29,705)	9,830	4,803	(6,684)	2,991	(5,640)

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- (1) Revenues for fiscal 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012 reflect the prospective adoption of new revenue accounting guidance commencing on July 1, 2010. As a result of this guidance, we separately allocate value for multiple element contracts between our subscription revenues and professional services revenues based on the best estimate of selling price. Additionally, we recognize professional services revenues as the services are delivered. Please refer to Note 2 to our consolidated financial statements for further discussion of our revenue recognition policies.
- (2) Stock-based compensation included in the statements of operations above was as follows:

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
	(in thousands)						
Cost of revenues:							
Subscription	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 156	\$ 532
Professional services and other	11	28	117	37	193	38	192
Sales and marketing	45	277	1,004	431	2,010	288	1,471
Research and development	50	90	468	207	704	143	661
General and administrative	15	102	817	221	2,056	130	1,062

- (3) Operating expenses for fiscal 2009 reflect compensation expense of \$3.8 million related to the stock settlement of an outstanding promissory note in connection with our sale and issuance of Series C preferred stock. Cost of revenues and operating expenses for fiscal 2010 reflect compensation expense of \$0.7 million and \$30.1 million, respectively, related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
	(as a percentage of revenues)						
Revenues:							
Subscription	92%	92%	85%	87%	88%	84%	83%
Professional services and other	8	8	15	13	12	16	17
Total revenues	100	100	100	100	100	100	100
Cost of revenues:							
Subscription	16	15	16	16	20	18	23
Professional services and other	25	22	18	18	18	19	22
Total cost of revenues	41	37	34	34	38	37	45
Gross profit	59	63	66	66	62	63	55
Operating expenses:							
Sales and marketing	44	45	37	36	44	33	41
Research and development	12	17	8	7	10	7	13
General and administrative	33	66	10	9	14	11	13
Total operating expenses	89	128	55	52	68	51	67
Income (loss) from operations	(30)	(65)	11	14	(6)	12	(12)
Interest and other income (expense), net	—	(3)	1	1	(2)	1	1
Income (loss) before provision for income taxes	(30)	(68)	12	15	(8)	13	(11)
Provision for income taxes	1	1	1	2	1	2	1
Net income (loss)	(31)%	(69)%	11%	13%	(9)%	11%	(12)%

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	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
(in thousands)							
Revenues by geography							
North America	\$ 14,062	\$ 31,396	\$ 69,333	\$ 27,919	\$ 51,901	\$ 18,437	\$ 33,930
Europe	5,018	10,708	20,093	8,693	18,842	5,908	11,878
Asia Pacific and other	235	1,225	3,215	1,332	2,632	867	1,623
Total revenues	<u>\$ 19,315</u>	<u>\$ 43,329</u>	<u>\$ 92,641</u>	<u>\$ 37,944</u>	<u>\$ 73,375</u>	<u>\$ 25,212</u>	<u>\$ 47,431</u>

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
Revenues by geography							
North America	73%	72%	75%	74%	71%	74%	72%
Europe	26%	25%	22%	23%	26%	23%	25%
Asia Pacific and other	1%	3%	3%	3%	3%	3%	3%
Total revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Comparison of the three months ended March 31, 2011 and 2012**
**Revenues**

	Three Months Ended March 31,		% Change
	2011	2012	
	(dollars in thousands)		
Revenues:			
Subscription	\$ 21,224	\$ 39,541	86%
Professional services and other	3,988	7,890	98%
Total revenues	<u>\$ 25,212</u>	<u>\$ 47,431</u>	88%
Percentage of revenues:			
Subscription	84%	83%	
Professional services and other	16%	17%	
Total	100%	100%	

Revenues increased \$22.2 million, primarily due to the increase in subscription revenues of \$18.3 million. Of the total increase in subscription revenues, 64% represented revenues from new customers acquired after March 31, 2011, and 36% represented revenues from existing customers at or prior to March 31, 2011. Our total customers increased 61% from March 31, 2011 to March 31, 2012. The average subscription revenues per customer increased 16% over this period primarily due an increase in the number of subscriptions sold to new customers.

Of the \$18.3 million total increase in subscription revenues for the three months ended March 31, 2012, 19% represented revenues from channel partners and 81% represented sales to customers by our direct sales organization. Subscription revenues outside North America represented 30% of the \$18.3 million total increase in subscription revenues and 70% represented subscription revenues in North America. During the three months ended March 31, 2012, we continued to increase our focus on international markets through the addition of new channel partners and expansion of our direct sales organization, and the opening of an additional sales and marketing office in Sweden.



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The increase in professional services and other revenues of \$3.9 million was primarily due to the growth in our customer base and \$2.2 million of revenues associated with acceptances received during the period. Revenues outside North America represented 32% of the \$3.9 million total increase in professional services and other revenues. Revenues in North America represented 68% of the \$3.9 million total increase in professional services and other revenues.

### ***Cost of Revenues and Gross Profit Percentage***

	Three Months Ended March 31,		% Change
	2011	2012	
	(dollars in thousands)		
Cost of revenues:			
Subscription	\$ 4,451	\$ 11,012	147%
Professional services and other	4,763	10,224	115%
Total cost of revenues	<u>\$ 9,214</u>	<u>\$ 21,236</u>	130%
Gross profit percentage:			
Subscription	79%	72%	
Professional services and other	(19)%	(30)%	
Total gross profit percentage	<u>63%</u>	<u>55%</u>	
Gross profit	<u>\$ 15,998</u>	<u>\$ 26,195</u>	64%
Headcount (at period end)	126	265	110%

Cost of subscription revenues increased \$6.6 million resulting in a decrease in our subscription gross profit percentage from 79% to 72%. The overall increase in cost of subscription revenues was primarily attributed to increased personnel-related costs of \$3.2 million, consisting of increased employee compensation, benefits and travel costs of \$2.9 million and additional stock-based compensation of \$0.4 million. These personnel-related cost increases were driven by headcount growth from 70 at March 31, 2011 to 143 at March 31, 2012. We expect personnel-related costs to continue to increase as we continue to hire employees in our cloud infrastructure and support organizations to meet our growing customer demands. In addition, hosting fees for our network infrastructure increased \$1.4 million as we increased data center capacity to migrate customers from our managed service data centers to our co-location data centers and to support our customer growth. We also opened eight new data centers since March 31, 2011. At March 31, 2012, we delivered our service from seven data centers in North America and nine data centers internationally compared to three data centers in North America and five data centers internationally as of March 31, 2011. We expect to open two new data centers in North America and two new data centers internationally by December 31, 2012. We expect to exit three of our managed services data centers in North America and five of our managed services data centers internationally by December 31, 2012. Depreciation expense also increased \$1.3 million due to purchases of network infrastructure to support our new data centers and growth within our existing data centers, and accelerated depreciation of the assets located in our managed services data centers, which we commenced in the three months ended December 31, 2011 when we made the decision to exit these data centers by December 31, 2012. We expect depreciation expense to continue to increase as we purchase new equipment to support our new customers. We expect depreciation expense and hosting costs as a percentage of revenues will decrease in 2013 as we stop hosting customers in our managed services data centers.

By December 31, 2012, we plan on operating six data centers in North America and six data centers internationally. We believe these data centers will enable us to provide our subscription services to our existing customers and accommodate anticipated growth. Accordingly, we anticipate capital expenditures on data center capacity as a percentage of revenues in 2013 will decrease compared to 2012. In 2013, we anticipate that the substantial portion of our capital expenditures on data center capacity will be on new equipment within existing data centers to accommodate growth, which generally requires less capital expenditure than provisioning the

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equivalent capacity in a new data center. We may add additional data centers in future periods to accommodate growth, to expand into new geographies or to meet regulatory requirements.

We expect our subscription gross profit percentage to decrease to approximately 62% to 65% for the balance of 2012. In 2013 we anticipate our subscription gross profit percentage will increase as we exit redundant managed data centers and better utilize our existing data center capacity as we add new customers and our existing customers expand their use of our services.

Cost of professional services and other revenues increased \$5.5 million, resulting in a decrease in our professional services and other gross profit percentage from (19)% to (30)%. The overall increase in cost of professional services and other revenues was primarily attributed to increased personnel-related costs of \$3.2 million, consisting of increased employee compensation, benefits and travel costs of \$3.1 million and additional stock-based compensation of \$0.2 million. The increased personnel-related costs were driven by headcount growth from 56 at March 31, 2011 to 122 at March 31, 2012. In addition, outside services costs increased \$2.2 million primarily due to additional fees paid to third parties to provide implementation services.

During the three months ended March 31, 2012, we incurred costs associated with certain fixed price professional services engagements signed in 2011 that exceeded the corresponding professional services revenues from these engagements. Although we do not anticipate our professional services business to become profitable in 2012, we expect our gross profit percentage from professional services will improve as we realize the benefits of the shift in our pricing model to primarily time and materials.

### ***Sales and Marketing***

	Three Months Ended March 31,		% Change
	2011	2012	
	(dollars in thousands)		
Sales and marketing	\$ 8,309	\$ 19,307	132%
Percentage of revenues	33%	41%	
Headcount (at period end)	103	270	162%

Sales and marketing expenses increased \$11.0 million due to the expansion of our sales force and increases in marketing programs to address additional opportunities in new and existing markets. Total headcount in sales and marketing increased 162% from March 31, 2011 to March 31, 2012, contributing to an \$8.7 million increase in personnel-related costs, consisting primarily of increased employee compensation, benefits and travel costs associated with our direct sales force of \$7.6 million, and additional stock-based compensation of \$1.2 million. In addition, commissions increased \$1.7 million directly attributable to increased revenues and changes made to our commissions plan in the three months ended March 31, 2012 as compared to the three months ended March 31, 2011.

We expect sales and marketing expenses to increase and continue to be our largest component of costs and expenses, as we continue to expand our direct sales teams, increase our marketing activities, grow our international operations, build brand awareness and sponsor additional marketing events.

### ***Research and Development***

	Three Months Ended March 31,		% Change
	2011	2012	
	(dollars in thousands)		
Research and development	\$ 1,885	\$ 6,043	221%
Percentage of revenues	7%	13%	
Headcount (at period end)	39	116	197%

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Research and development expenses increased \$4.2 million primarily due to increased personnel-related costs of \$4.5 million, consisting of increased employee compensation, benefits and travel costs associated with our research and development team of \$3.9 million and additional stock-based compensation of \$0.6 million. Total headcount in research and development increased 197% from March 31, 2011 to March 31, 2012 as we upgraded and extended our service offerings and developed new technologies.

We expect research and development expenses to increase as we improve the existing functionality of our service, develop new applications to fill market needs and continue to enhance our core platform.

### ***General and Administrative***

	Three Months Ended March 31,		% Change
	2011	2012	
	(dollars in thousands)		
General and administrative	\$ 2,680	\$ 6,427	140%
Percentage of revenues	11%	13%	
Headcount (at period end)	34	78	129%

General and administrative expenses increased \$3.7 million primarily due to increased headcount of 129% from March 31, 2011 to March 31, 2012. Personnel-related expenses increased \$2.6 million, consisting of increased employee compensation, benefits and travel costs of \$1.6 million and additional stock-based compensation of \$0.9 million, as we added employees to support the growth of our business. Professional and outside service costs increased \$1.1 million, comprised primarily of legal and accounting fees associated with our international expansion.

We expect to incur higher general and administrative expenses as a result of both our growth and transition to a public company, including higher legal, corporate insurance and accounting expenses, and the additional costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act and related regulations. We expect the continued expansion of our operations will also contribute to higher general and administrative expenses. Specifically, during the second half of 2012, we are relocating our headquarters to accommodate our growth. We anticipate taking an impairment charge of approximately \$2.0 million to \$3.0 million for exit costs associated with our current lease at the time we stop using the building.

### ***Interest and Other Income, net***

	Three Months Ended March 31,		% Change
	2011	2012	
	(dollars in thousands)		
Interest and other income, net	\$ 252	\$ 492	95%
Percentage of revenues	1%	1%	

Interest and other income, net, primarily consists of foreign currency transaction gains and losses. The increase of \$0.2 million is primarily due to unrealized gains on amounts invoiced to customers that are denominated in British pounds and Euros as the U.S. dollar weakened over the three months ended March 31, 2012 as compared to the three months ended March 31, 2011.

While we have not engaged in the hedging of our foreign currency transactions to date, we are presently evaluating the costs and benefits of initiating such a program and may in the future hedge selected significant transactions denominated in currencies other than the U.S. dollar.

### Provision for Income Taxes

	Three Months Ended March 31,		% Change
	2011	2012	
	(in thousands)		
Income before income taxes	\$ 3,376	\$ (5,090)	NM
Provision for income taxes	385	550	43%
Effective tax rate	12%	(11)%	

The provision for income taxes increased \$0.2 million, primarily as a result of a higher proportion of earnings in taxable jurisdictions in the three months ended March 31, 2012 compared to the same period in the prior year. During the three months ended March 31, 2012, we generated a loss in our foreign operations, which decreased our effective income tax rate.

We continue to maintain a full valuation allowance on our federal and state deferred tax assets, and the significant components of the tax expense recorded are current cash taxes in various jurisdictions. The cash tax expenses are impacted by each jurisdiction's individual tax rates, laws on timing of recognition of income and deductions and availability of net operating losses and tax credits. In December 2011, we reorganized our international operations and established our non-U.S. headquarters in the Netherlands, which has an effective tax rate that is lower than the U.S. federal statutory rate. Given the full valuation allowance, sensitivity of current cash taxes to local rules and our foreign restructuring, we expect our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates. The earnings of our foreign subsidiaries are considered to be permanently reinvested outside of the United States.

### Comparison of the six months ended December 31, 2010 and 2011

#### Revenues

	Six Months Ended December 31,		% Change
	2010	2011	
	(dollars in thousands)		
Revenues:			
Subscription	\$ 33,191	\$ 64,886	95%
Professional services and other	4,753	8,489	79%
Total revenues	\$ 37,944	\$ 73,375	93%
Percentage of revenues:			
Subscription	87%	88%	
Professional services and other	13%	12%	
Total	100%	100%	

Revenues increased \$35.4 million, due primarily to the increase in subscription revenues of \$31.7 million. Of the total increase in subscription revenues, 55% represented revenues from new customers acquired after December 31, 2010, and 45% represented revenues from existing customers at or prior to December 31, 2010. Our total customers increased 62% from December 31, 2010 to December 31, 2011. The average subscription revenues per customer increased 19% over this period primarily due to an increase in the number of subscriptions sold to existing customers.

Of the \$31.7 million total increase in subscription revenues for the six months ended December 31, 2011, 19% represented revenues from channel partners and 81% represented sales to customers by our direct sales organization. Subscription revenues outside North America represented 33% of the \$31.7 million total increase

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in subscription revenues and 67% represented subscription revenues in North America. The increase in revenues from channel partners was due primarily to increased market adoption of our subscription service through sales by our existing channel partners and to a lesser extent the addition of new channel partners. The increase in subscription revenues outside North America was due primarily to increased adoption of our subscription service through sales by our existing channel partners and direct sales organization, and to a lesser extent the addition of new channel partners and the expansion of our direct sales organization. During the six months ended December 31, 2011, we opened additional sales and marketing offices in Denmark and France, which did not account for a significant portion of increased revenues during the period.

The increase in professional services and other revenues of \$3.7 million was primarily due to the growth in our customer base. Revenues outside North America represented 27% of the \$3.7 million total increase in professional services and other revenues. Revenues in North America represented 73% of the \$3.7 million total increase in professional services and other revenues.

### ***Cost of Revenues and Gross Profit Percentage***

	Six Months Ended December 31,		% Change
	2010	2011	
	(dollars in thousands)		
Cost of revenues:			
Subscription	\$ 6,096	\$ 15,073	147%
Professional services and other	6,778	12,850	90%
Total cost of revenues	<u>\$ 12,874</u>	<u>\$ 27,923</u>	117%
Gross profit percentage:			
Subscription	82%	77%	
Professional services and other	(43)%	(51)%	
Total gross profit percentage	<u>66%</u>	<u>62%</u>	
Gross profit	\$ 25,070	\$ 45,452	81%
Headcount (at period end)	101	217	115%

Cost of subscription revenues increased \$9.0 million resulting in a decrease from 82% to 77% in subscription gross profit percentage. The overall increase in cost of subscription revenues was primarily attributed to increased personnel-related costs of \$4.9 million, consisting of increased employee compensation, benefits and travel costs of \$4.5 million and additional stock-based compensation of \$0.4 million. In addition, hosting fees for our network infrastructure increased \$1.6 million as we increased data center capacity to support our growth. At December 31, 2011, we delivered our service from seven data centers in North America and seven data centers internationally compared to three data centers in North America and five data centers internationally at December 31, 2010. Depreciation expense also increased \$1.1 million as we started the transition of our network infrastructure from a managed services hosting model to a co-location model.

Cost of professional services and other revenues increased \$6.1 million resulting in a decrease in professional services and other gross profit percentage from (43)% to (51)%. The overall increase in cost of professional services and other revenues was primarily attributed to increased personnel-related costs of \$3.7 million, consisting of increased employee compensation, benefits and travel costs of \$3.5 million and additional stock-based compensation of \$0.2 million. In addition, outside services increased \$1.9 million primarily related to additional fees paid to third-parties to provide implementation services.

Total headcount associated with cost of revenues increased 115% from December 31, 2010 to December 31, 2011 as we invested in additional resources to continue to support our subscription service and further develop our professional services group.

### ***Sales and Marketing***

	Six Months Ended December 31,		% Change
	2010	2011	
	(dollars in thousands)		
Sales and marketing	\$ 13,728	\$ 32,501	137%
Percentage of revenues	36%	44%	
Headcount (at period end)	90	242	169%

Sales and marketing expenses increased \$18.8 million due to the expansion of our sales force and increases in marketing programs to address additional opportunities in new and existing markets. Total headcount in sales and marketing increased 169% from December 31, 2010 to December 31, 2011, contributing to a \$13.3 million increase in personnel-related costs, consisting primarily of increased employee compensation, benefits and travel costs associated with our direct sales force of \$11.8 million, and additional stock-based compensation of \$1.6 million. In addition, we incurred an increase of \$3.1 million in commissions directly attributable to increased sales and changes made to our commissions plan in the six months ended December 31, 2011. Marketing and event costs increased \$1.3 million due to our continued efforts to generate sales leads and build brand awareness.

### ***Research and Development***

	Six Months Ended December 31,		% Change
	2010	2011	
	(dollars in thousands)		
Research and development	\$ 2,758	\$ 7,030	155%
Percentage of revenues	7%	10%	
Headcount (at period end)	34	83	144%

Research and development expenses increased \$4.3 million primarily due to increased personnel-related costs of \$4.0 million, consisting of increased employee compensation, benefits and travel costs associated with our research and development team of \$3.5 million and additional stock-based compensation of \$0.5 million. Total headcount in research and development increased 144% from December 31, 2010 to December 31, 2011 as we upgraded and extended our service offerings and developed new technologies.

### ***General and Administrative***

	Six Months Ended December 31,		% Change
	2010	2011	
	(dollars in thousands)		
General and administrative	\$ 3,417	\$ 10,084	195%
Percentage of revenues	9%	14%	
Headcount (at period end)	25	61	144%

General and administrative expenses increased \$6.7 million primarily due to increased headcount of 144% from December 31, 2010 to December 31, 2011. Personnel-related expenses increased by \$4.1 million, consisting of increased employee compensation, benefits and travel costs of \$2.3 million and additional stock-based compensation of \$1.8 million, as we added employees to support the growth of our business. Professional and outside service costs increased \$1.6 million, comprised primarily of legal and accounting fees associated with our international expansion.

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### ***Interest and Other Income (Expense), net***

	Six Months Ended December 31,		% Change
	2010	2011	
	(dollars in thousands)		
Interest and other income (expense), net	\$ 289	\$ (1,446)	NM
Percentage of revenues	1%	(2)%	

Interest and other income (expense), net primarily consists of foreign currency transaction gains and losses. The decrease of \$1.7 million is primarily due to unrealized losses on amounts invoiced to customers that are denominated in British Pounds and Euros as the U.S. Dollar strengthened over the six months ended December 31, 2011 as compared to the six months ended December 31, 2010.

### ***Provision for Income Taxes***

	Six Months Ended December 31,		% Change
	2010	2011	
	(in thousands)		
Income before income taxes	\$ 5,456	\$ (5,609)	NM
Provision for income taxes	653	1,075	65%
Effective tax rate	12%	(19)%	

The provision for income taxes increased \$0.4 million, primarily as a result of the increase in pre-tax income related to international operations and California taxes for the six months ended December 31, 2011 compared to the same period in the prior year. During the six months ended December 31, 2011, we recorded a provision for income taxes principally attributable to foreign taxes, U.S. federal taxes and California taxes.

We maintain a full valuation allowance on our federal and state deferred tax assets, and the significant components of the tax expense recorded are current cash taxes in various jurisdictions. Our cash tax expense is impacted by each jurisdiction's individual tax rates, laws on timing of recognition of income and deductions and availability of net operating losses and tax credits. In December 2011, we reorganized our international operations and established a holding company in Bermuda with our non-U.S. headquarters in the Netherlands, resulting in an effective tax rate lower than the U.S. federal statutory rate. Given the full valuation allowance, sensitivity of current cash taxes to local rules and our foreign restructuring, our effective tax rate fluctuates significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

### **Comparison of Fiscal 2009, 2010 and 2011**

#### ***Revenues***

	Fiscal Year Ended June 30,			2009 to 2010 % Change	2010 to 2011 % Change
	2009	2010	2011		
	(dollars in thousands)				
Revenues:					
Subscription	\$17,841	\$40,078	\$79,191	125%	98%
Professional services and other	1,474	3,251	13,450	121%	314%
Total revenues	<u>\$19,315</u>	<u>\$43,329</u>	<u>\$92,641</u>	124%	114%
Percentage of revenues:					
Subscription	92%	92%	85%		
Professional services and other	8	8	15		
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>		

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*Fiscal 2010 compared to fiscal 2011.* Revenues increased \$49.3 million, primarily due to the increase in subscription revenues of \$39.1 million. Of the total increase in subscription revenues, 46% represented revenues from new customers acquired after June 30, 2010, and 54% represented revenues from existing customers at or prior to June 30, 2010. Our total customers increased 68% from June 30, 2010 to June 30, 2011. The average subscription revenues per customer increased 19% over this period primarily due to an increase in the number of subscriptions sold to existing customers.

Of the \$39.1 million increase in subscription revenues for fiscal 2011, 13% represented revenues from channel partners and 87% represented sales to customers by our direct sales organization. Subscription revenues outside North America represented 25% of the \$39.1 million total increase in subscription revenues and 75% represented subscription revenues in North America.

The increase in professional services and other revenues of \$10.2 million was primarily due to the prospective adoption of new revenue accounting guidance resulting in an increase to professional services and other revenues of \$5.5 million in fiscal 2011. The remaining increase of \$4.7 million was attributable to the growth in our customer base. Revenues outside North America represented 17% of the \$10.2 million total increase in professional services and other revenues. Revenues in North America represented 83% of the \$10.2 million total increase in professional services and other revenues. The increase in subscription revenues outside North America was due primarily to increased adoption of our subscription service through sales from new channel partners and to a lesser extent sales by our existing channel partners and the expansion of our direct sales organization. During fiscal 2011, we opened additional sales and marketing offices in Australia and the Netherlands.

*Fiscal 2009 compared to fiscal 2010.* Revenues increased \$24.0 million, primarily due to the increase in subscription revenues of \$22.2 million. Of the total increase in subscription revenues 57% represented revenues from new customers acquired after June 30, 2009, and 43% represented revenues from existing customers at or prior to June 30, 2009. Our total customers increased by 64% from June 30, 2009 to June 30, 2010. The average subscription revenues per customer increased 41% over this period primarily due to an increase in the average number of subscriptions sold to new customers.

Of the \$22.2 million increase in subscription revenues for fiscal 2010, 8% represented revenues from channel partners and 92% represented sales to customers by our direct sales organization. Subscription revenues outside North America represented 28% of the \$22.2 million total increase in subscription revenues and 72% represented subscription revenues in North America. The increase in subscription revenues outside North America was due primarily to increased adoption of our subscription service through sales by our existing channel partners and to a lesser extent the addition of new channel partners and the expansion of our direct sales organization. During fiscal 2010, we opened an additional sales and marketing office in Germany, which did not account for a significant portion of increased revenues during the period.

The increase in professional services and other revenues of \$1.8 million was primarily attributable to the growth in our customer base. Revenues outside North America represented 21% of the \$1.8 million total increase in professional services and other revenues. Revenues in North America represented 79% of the \$1.8 million total increase in professional services and other revenues.



### Cost of Revenues and Gross Profit Percentage

	Fiscal Year Ended June 30,			2009 to 2010 % Change	2010 to 2011 % Change
	2009	2010	2011		
	(dollars in thousands)				
Cost of revenues:					
Subscription	\$ 3,140	\$ 6,378	\$15,311	103%	140%
Professional services and other	4,711	9,812	16,264	108%	66%
Total cost of revenues	<u>\$ 7,851</u>	<u>\$16,190</u>	<u>\$31,575</u>	106%	95%
Gross profit percentage:					
Subscription	82%	84%	81%		
Professional services and other	(220)	(202)	(21)		
Total gross profit percentage	<u>59%</u>	<u>63%</u>	<u>66%</u>		
Gross profit	<u>\$11,464</u>	<u>\$27,139</u>	<u>\$61,066</u>	137%	125%
Headcount (at period end)	38	66	150	74%	127%

*Fiscal 2010 compared to fiscal 2011.* Cost of subscription revenues increased \$8.9 million, resulting in a decrease from 84% to 81% in subscription gross profit percentage from June 30, 2010 to June 30, 2011. The overall increase in cost of subscription revenues was primarily attributable to increased personnel-related costs of \$5.0 million, consisting of increased employee compensation, benefits and travel costs of \$4.5 million and additional stock-based compensation of \$0.5 million. Hosting fees for our network infrastructure increased \$2.1 million as we increased data center capacity to support our growth. At June 30, 2011, we delivered our service from six data centers in North America and five data centers internationally compared to three data centers in the United States and five data centers internationally at June 30, 2010. Depreciation expense also increased \$0.8 million as we started the transition of our network infrastructure from a managed service hosting model to a co-location model.

Cost of professional services and other revenues increased \$6.5 million from June 30, 2010 to June 30, 2011. Our professional services and other gross profit percentage improved from (202)% to (21)% from June 30, 2010 to June 30, 2011, primarily due to increased revenues as a result of the prospective adoption of new revenue recognition accounting guidance. This guidance enabled us to recognize professional services revenues as the services are delivered. The overall increase in cost of professional services and other revenues was primarily attributable to increased employee compensation, benefits and travel costs of \$3.1 million and increased outside services costs of \$3.1 million primarily related to additional fees paid to third parties to provide implementation services.

Total headcount associated with cost of revenues increased 127% from June 30, 2010 to June 30, 2011 as we invested in additional resources to continue to support our subscription service and further develop our professional services group.

*Fiscal 2009 compared to fiscal 2010.* Our subscription gross profit percentage increased from 82% to 84% from June 30, 2009 to June 30, 2010, due to increased revenues of \$22.2 million offset by an increase in the cost of subscription revenues of \$3.2 million. The overall increase in cost of subscription revenues was primarily attributed to an increase in our hosting fees for our network infrastructure of \$1.5 million as we increased data center capacity to support our growth. At June 30, 2010, we delivered our service from three data centers in North America and five data centers internationally, compared to three data centers in North America and two data centers internationally at June 30, 2009. Personnel-related costs increased \$1.1 million, consisting of increased employee compensation, benefits and travel costs.

Our professional services and other gross profit percentage improved from (220)% to (202)% from June 30, 2009 to June 30, 2010, due to an increase in professional services and other revenues of \$1.8 million offset by an increase in cost of professional services and other revenues of \$5.1 million. The overall increase in cost of professional services and other revenues was primarily attributable to increased outside services costs of \$3.2 million primarily related to additional fees paid to third parties to provide implementation services. In addition,

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personnel-related costs increased \$1.5 million, consisting primarily of increased employee compensation, benefits and travel costs of \$1.4 million. Total headcount associated with cost of revenues increased 74% from June 30, 2009 to June 30, 2010 as we invested in additional resources to continue to support our subscription service and further develop our professional services group.

### **Sales and Marketing**

	Fiscal Year Ended June 30,			2009 to 2010 % Change	2010 to 2011 % Change
	2009	2010	2011		
	(dollars in thousands)				
Sales and marketing	\$8,499	\$19,334	\$34,123	127%	76%
Percentage of revenues	44%	45%	37%		
Headcount (at period end)	40	72	140	80%	94%

*Fiscal 2010 compared to fiscal 2011.* Sales and marketing expenses increased \$14.8 million. Employee-related costs increased \$13.3 million, consisting of increased employee compensation, benefits and travel costs in connection with our direct sales force of \$11.5 million, increased commissions of \$1.1 million, and an increase in stock-based compensation of \$0.7 million, which was primarily driven by an increase in sales and marketing headcount of 94% from June 30, 2010 to June 30, 2011. In addition, we incurred an increase of \$2.7 million in marketing and event costs primarily attributable to our annual Knowledge conference, which experienced a 107% increase in attendance year-over-year. Offsetting these increases was a decrease of \$2.0 million in compensation expense related to the fiscal 2010 repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock. Please see Note 9 to our consolidated financial statements for further explanation of this transaction.

*Fiscal 2009 compared to fiscal 2010.* Sales and marketing expenses increased \$10.8 million. Employee-related costs increased \$7.6 million, consisting of increased employee compensation, benefits and travel costs in connection with our direct sales force of \$4.7 million, increased commissions of \$2.7 million, and an increase in stock-based compensation of \$0.2 million, which was primarily driven by an increase in sales and marketing headcount of 80% from June 30, 2009 to June 30, 2010. In addition, fiscal 2010 included \$2.0 million in compensation expense related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock. Marketing and event costs, primarily related to our Knowledge conference, increased \$0.8 million.

### **Research and Development**

	Fiscal Year Ended June 30,			2009 to 2010 % Change	2010 to 2011 % Change
	2009	2010	2011		
	(dollars in thousands)				
Research and development	\$2,433	\$7,194	\$7,004	196%	(3)%
Percentage of revenues	13%	17%	8%		
Headcount (at period end)	15	28	44	87%	57%

*Fiscal 2010 compared to fiscal 2011.* Research and development expenses decreased \$0.2 million. Personnel-related costs increased \$2.8 million, consisting of increased employee compensation, benefits and travel costs of \$2.4 million and increased stock-based compensation of \$0.4 million, which was primarily driven by an increase in research and development headcount of 57% from June 30, 2010 to June 30, 2011. In addition, outside services costs increased \$0.4 million. Offsetting these increases was a decrease of \$3.6 million in compensation expense related to the fiscal 2010 repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.

*Fiscal 2009 compared to fiscal 2010.* Research and development expenses increased \$4.8 million primarily due to \$3.6 million in compensation expense related to the repurchase of shares from eligible stockholders in

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connection with our sale and issuance of Series D preferred stock in fiscal 2010. In addition, personnel-related costs increased \$1.1 million, primarily consisting of increased employee compensation, benefits and travel costs of \$1.0 million, which was driven by an increase in research and development headcount of 87% from June 30, 2009 to June 30, 2010.

### **General and Administrative**

	Fiscal Year Ended June 30,			2009 to 2010 %Change	2010 to 2011 %Change
	2009	2010	2011		
	(dollars in thousands)				
General and administrative	\$6,363	\$28,810	\$9,379	353%	(67)%
Percentage of revenues	33%	66%	10%		
Headcount (at period end)	8	12	41	50%	242%

*Fiscal 2010 compared to fiscal 2011.* General and administrative expenses decreased \$19.4 million. Personnel-related expenses increased \$3.3 million, consisting of increased employee compensation, benefits and travel costs of \$2.6 million and increased stock-based compensation of \$0.7 million primarily driven by an increase in general and administrative headcount of 242% from June 30, 2010 to June 30, 2011. Professional and outside service costs, comprised primarily of legal and accounting and auditing fees, increased \$1.1 million. Offsetting these increases was a decrease of \$24.5 million in compensation expense related to the fiscal 2010 repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.

*Fiscal 2009 compared to fiscal 2010.* General and administrative expenses increased \$22.4 million primarily due to \$24.5 million in compensation expense related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock in fiscal 2010. The effects of the sale and issuance of Series D preferred stock were partially offset by a decrease of \$3.8 million in compensation expense related to the fiscal 2009 stock settlement of an outstanding promissory note in connection with the sale and issuance of Series C preferred stock. Please see Note 9 to our consolidated financial statements for further discussion of these transactions. In addition, general and administrative expenses increased \$1.7 million primarily due to an increase in general and administrative headcount of 50% from June 30, 2009 to June 30, 2010. Personnel-related expenses increased by \$0.8 million, consisting of increased employee compensation, benefits and travel costs of \$0.7 million and increased stock-based compensation of \$0.1 million. Professional and outside service costs, comprised mostly of legal and accounting and auditing fees, accounted for \$0.6 million of the increase.

### **Interest and Other Income (Expense), net**

	Fiscal Year Ended June 30,			2009 to 2010 %Change	2010 to 2011 %Change
	2009	2010	2011		
	(dollars in thousands)				
Interest and other income (expense), net	\$ (27)	\$(1,226)	\$ 606	NM	NM
Percentage of revenues	—%	(3)%	1%		

*Fiscal 2010 compared to fiscal 2011.* The increase in interest and other income (expense), net of \$1.8 million is due to losses on foreign currency transactions of \$0.6 million during fiscal 2011 as compared to realized and unrealized gains of \$0.5 million during fiscal 2010. Additionally, during fiscal 2010, we marked to market our preferred stock warrants and revalued them upon settlement as part of the sale and issuance of Series D preferred stock, resulting in additional expense of \$0.7 million.

*Fiscal 2009 compared to fiscal 2010.* The decrease in interest and other income (expense), net of \$1.2 million is due to additional realized and unrealized losses on foreign currency transactions of \$0.5 million coupled with the revaluation of our preferred stock warrants upon settlement resulting in a decrease of \$0.7 million.

**Provision for Income Taxes**

	Fiscal Year Ended June 30,			2009 to 2010 % Change	2010 to 2011 % Change
	2009	2010	2011		
	(dollars in thousands)				
Income before income taxes	\$ (5,858)	\$ (29,425)	\$ 11,166	NM	NM
Provision for income taxes	48	280	1,336	483%	377%
Effective tax rate	(1)%	(1)%	12%		

*Fiscal 2010 compared to fiscal 2011.* The provision for income taxes increased \$1.1 million primarily as a result of the increase in pre-tax income related to international operations and California taxes.

*Fiscal 2009 compared to fiscal 2010.* The provision for income taxes increased \$0.2 million primarily as a result of international operations.

We maintain a full valuation allowance on our U.S. federal and state deferred tax assets, and the significant components of the tax expense recorded are current cash taxes in various jurisdictions. Our cash tax expense is impacted by each jurisdiction's individual tax rates, laws on timing of recognition of income and deductions and availability of net operating losses and tax credits. Given the full valuation allowance and sensitivity of current cash taxes to local rules, our effective tax rate fluctuates significantly on an annual basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

## Quarterly Results of Operations

The following tables set forth our unaudited quarterly consolidated statements of operations data and our unaudited consolidated statements of operations data as a percentage of total revenues for each of the seven quarters in the period ended March 31, 2012. We have prepared the quarterly data on a consistent basis with the audited consolidated financial statements included in this prospectus. In the opinion of management, the financial information reflects all necessary adjustments, consisting of normal recurring adjustments, necessary for a fair statement of this data. This information should be read in conjunction with the audited consolidated financial statements and related noted included elsewhere in this prospectus. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future periods.

	For the Three Months Ended						
	Sep 30, 2010	Dec 31, 2010	March 30, 2011	June 30, 2011	Sep 30, 2011	Dec 31, 2011	March 31, 2012
	(in thousands)						
<b>Revenues:</b>							
Subscription	\$14,816	\$18,375	\$21,224	\$24,776	\$30,331	\$34,555	\$39,541
Professional services and other	1,773	2,980	3,988	4,709	3,866	4,623	7,890
Total revenues	16,589	21,355	25,212	29,485	34,197	39,178	47,431
<b>Cost of revenues<sup>(1)</sup>:</b>							
Subscription	2,711	3,385	4,451	4,764	6,323	8,750	11,012
Professional services and other	2,653	4,125	4,763	4,723	5,609	7,241	10,224
Total cost of revenues	5,364	7,510	9,214	9,487	11,932	15,991	21,236
Gross profit	11,225	13,845	15,998	19,998	22,265	23,187	26,195
<b>Operating expenses<sup>(1)</sup>:</b>							
Sales and marketing	6,433	7,295	8,309	12,086	13,980	18,521	19,307
Research and development	1,237	1,521	1,885	2,361	2,757	4,273	6,043
General and administrative	1,453	1,964	2,680	3,282	4,509	5,575	6,427
Total operating expenses	9,123	10,780	12,874	17,729	21,246	28,369	31,777
Income (loss) from operations	2,102	3,065	3,124	2,269	1,019	(5,182)	(5,582)
Interest and other income (expense), net	320	(31)	252	65	(729)	(717)	492
Income (loss) before provision for income taxes	2,422	3,034	3,376	2,334	290	(5,899)	(5,090)
Provision for income taxes	290	363	385	298	169	906	550
Net income (loss)	<u>\$ 2,132</u>	<u>\$ 2,671</u>	<u>\$ 2,991</u>	<u>\$ 2,036</u>	<u>\$ 121</u>	<u>\$ (6,805)</u>	<u>\$ (5,640)</u>

(1) Stock-based compensation included in the statements of operations above was as follows:

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	For the Three Months Ended						
	Sep 30, 2010	Dec 31, 2010	March 30, 2011	June 30, 2011	Sep 30, 2011	Dec 31, 2011	March 31, 2012
Cost of revenues:							
Subscription	\$ 97	\$ 128	\$ 156	\$ 167	\$ 201	\$ 473	\$ 532
Professional services and other	15	22	38	42	71	122	192
Sales and marketing	192	239	288	285	800	1,210	1,471
Research and development	95	112	143	118	263	441	661
General and administrative	134	87	130	466	1,056	1,000	1,062
	For the Three Months Ended						
	Sep 30, 2010	Dec 31, 2010	March 31, 2011	June 30, 2011	Sep 30, 2011	Dec 31, 2011	March 31, 2012
	(as a percentage of revenues)						
Revenues:							
Subscription	89%	86%	84%	84%	89%	88%	83%
Professional services and other	11	14	16	16	11	12	17
Total revenues	100	100	100	100	100	100	100
Cost of revenues:							
Subscription	16	16	18	16	18	22	23
Professional services and other	16	19	19	16	17	19	22
Total cost of revenues	32	35	37	32	35	41	45
Gross profit	68	65	63	68	65	59	55
Operating expenses:							
Sales and marketing	39	34	33	41	41	47	41
Research and development	7	7	7	8	8	11	13
General and administrative	9	9	11	11	13	14	13
Total operating expenses	55	50	51	60	62	72	67
Income (loss) from operations	13	15	12	8	3	(13)	(12)
Interest and other income (expense), net	2	—	1	—	(2)	(2)	1
Income (loss) before provision for income taxes	15	15	13	8	1	(15)	(11)
Provision for income taxes	2	2	1	1	—	(2)	1
Net income (loss)	13%	13%	12%	7%	1%	(17%)	(12%)

### ***Seasonality, Cyclicity and Quarterly Trends***

We have historically experienced seasonality in terms of when we enter into customer agreements for our service. We sign a significantly higher percentage of agreements with new customers, as well as renewal agreements with existing customers, in the quarters ended June 30 and December 31. The increase in customer agreements for the quarters ended June 30 is primarily as a result of the historical terms of our commission plans to incentivize our direct sales force to meet their quotas by the end of the fiscal year. The increase in customer agreements for the quarter ended December 31 can be attributed to large enterprise account buying patterns typical in the software industry. Furthermore, we usually sign a significant portion of these agreements during the last month, and often the last two weeks, of each quarter. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenues, due to the fact that we recognize subscription revenues over the term of the license agreement, which is generally 12 to 36 months. As a result of the change in our fiscal year end from June 30 to December 31 and changes to our commission plans to provide for earlier incentives, we may not see the same increase in new customer agreements for future quarters ended June 30. Although these seasonal factors are common in the technology industry, historical patterns should not be considered a reliable indicator of our future sales activity or performance.

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Our revenues have increased over the periods presented due to increased sales to new customers, as well as upsells to existing customers. Our operating expenses have increased sequentially in every quarter primarily due to increases in headcount and other related expenses to support our growth. We anticipate these expenses will continue to increase in future periods as we continue to focus on investing in the long-term growth of our business.

In the quarters ended September 30, 2011, December 31, 2011 and March 31, 2012, we accelerated investments in our headcount and operations to drive our future growth. As a result, we generated a net loss in the quarter ended March 31, 2012 despite significant revenue growth in the period.

### Liquidity and Capital Resources

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
	(in thousands)						
Net cash provided by (used in) operating activities	\$ 160	\$ (7,532)	\$37,468	\$10,711	\$13,220	\$14,086	\$ 16,079
Net cash used in investing activities	(851)	(1,455)	(8,383)	(1,857)	(7,959)	(3,676)	(23,894)
Net cash provided by financing activities	3,701	30,672	1,227	222	2,154	565	19,927
Net increase in cash and cash equivalents, net of impact of exchange rates on cash	3,016	21,614	30,451	9,055	8,235	11,216	12,052

To date, we have funded our business primarily with cash flows from operating activities. At March 31, 2012, we had \$80.1 million in cash and cash equivalents, of which \$3.2 million represented cash located overseas. We also had \$15.3 million in short-term investments consisting of commercial paper, corporate debt securities and U.S. government agency securities.

Our historical cash flows from operating activities have been significantly impacted by customer billings and payment terms, as well as operating expenses related to sales and marketing, our cloud infrastructure, professional services, and research and development.

Based on our current level of operations and anticipated growth, we believe our current cash and cash equivalents and cash flows from operating activities will be sufficient to fund our operating needs for at least the next 12 months, barring unforeseen circumstances.

Our primary short-term needs for cash, which are subject to change, include expenditures related to the growth of our cloud infrastructure, including the addition and expansion of data centers, and the acquisition of fixed assets for use in our current and future data centers. We made capital expenditures of \$3.1 million in the three months ended March 31, 2012 and anticipate making capital expenditures of approximately \$22.0 million during the remainder of fiscal 2012.

Our short-term needs for cash also include expenditures related to:

- the growth of our sales and marketing and professional services efforts;
- support of our sales and marketing efforts related to our current and future services and applications, including expansion of our direct sales force and support resources both in the United States and abroad;
- the continued advancement of research and development; and
- the expansion needs of our facilities, including costs of leasing additional facilities.

To the extent existing cash and cash equivalents and cash from operations are not sufficient to fund our future activities, we may need to raise additional funds. Although we are not currently a party to any agreement

or letter of intent with respect to potential investments in, or acquisitions of, complementary businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity financing or use our cash resources. We have no present understandings, commitments or agreements to enter into any such acquisitions.

Depending on certain growth opportunities, we may choose to accelerate investments in sales and marketing, cloud infrastructure, professional services, and research and development, which may require the use of proceeds from our initial public offering.

### ***Operating Activities***

Net cash provided by operating activities in the three months ended March 31, 2012 reflected our net loss of \$5.6 million, adjusted by non-cash charges including \$3.9 million for stock-based compensation, \$2.3 million for the amortization of deferred commissions and \$2.0 million for depreciation, and changes in our working capital. The fluctuations in our working capital were primarily attributed to an increase of \$11.0 million in deferred revenue and a decrease of \$4.2 million in prepaid expenses and other current assets, partially offset by a \$5.3 million increase in deferred commissions. The increases in deferred revenue and deferred commissions were primarily due to increased sales in the three months ended March 31, 2012. The decrease in prepaid expenses and other current assets was due to the settlement of Frederic B. Luddy's outstanding receivable for withholding taxes associated with the sale of Series C and Series D preferred stock.

Net cash provided by operating activities in the three months ended March 31, 2011 reflected our net income of \$3.0 million and changes in our working capital. The fluctuations in our working capital were primarily attributed to a \$14.4 million increase in deferred revenue, a \$2.7 million increase in deferred rent, and a \$2.6 million increase in accrued liabilities, partially offset by an \$8.5 million increase in accounts receivable. The increase in deferred revenue and accounts receivable was primarily due to increased sales. The increase in deferred rent and accrued liabilities was primarily due to the growth of our business and the resulting move of our San Diego headquarters to a new building during the period.

Net cash provided by operating activities in the six months ended December 31, 2011 reflected our net loss of \$6.7 million, adjusted by non-cash charges including \$5.6 million for stock-based compensation, \$3.5 million for amortization of deferred commissions and \$2.0 million for depreciation, and changes in our working capital. The fluctuations in our working capital were primarily attributed to a \$30.0 million increase in deferred revenue and a \$6.9 million increase in accrued liabilities, partially offset by a \$20.4 million increase in accounts receivable and an \$8.3 million increase in deferred commissions. The increase in deferred revenue, accounts receivable and deferred commissions was primarily due to increased sales. Our sales and marketing headcount increased 73% during the six months ended December 31, 2011. The increase in accrued liabilities was due to the growth in our business and increased headcount.

Net cash provided by operating activities in the six months ended December 31, 2010 reflected our net income of \$4.8 million and changes in our working capital. The fluctuations in our working capital were primarily attributed to a \$12.6 million increase in deferred revenue, partially offset by a \$7.6 million increase in accounts receivable. The increase in deferred revenue and accounts receivable was primarily due to increased sales.

Net cash provided by operating activities in fiscal 2011 reflected our net income of \$9.8 million, adjusted by non-cash charges including \$4.0 million for the amortization of deferred commissions and \$3.0 million for stock-based compensation, and changes in our working capital. The fluctuations in our working capital were primarily attributed to a \$33.9 million increase in deferred revenue, a \$5.4 million increase in accrued liabilities and a \$3.2 million increase in deferred rent, partially offset by a \$14.8 million increase in accounts receivable and a \$5.6 million increase in deferred commissions. The increase in deferred revenue, accounts receivable and deferred commissions was primarily due to increased sales in fiscal 2011. The increase in accrued liabilities and



deferred rent was primarily due to the growth of our business and the resulting move of our San Diego headquarters to a new building during the period.

Net cash used in operating activities in fiscal 2010 reflected our net loss of \$29.7 million, which included non-cash compensation expense of \$30.8 million related to the premium paid to eligible stockholders for the repurchase of common stock in connection with the sale of Series D preferred stock, and the changes in our working capital. The fluctuations in our working capital were primarily attributed to a \$24.0 million increase in deferred revenue and an \$8.9 million increase in accrued liabilities, partially offset by a \$5.3 million increase in deferred commissions, a \$5.2 million increase in accounts receivable and a \$4.9 million increase in prepaid expenses and other current assets. The increase in accrued liabilities included \$4.5 million in withholding taxes associated with the repurchase of Frederic B. Luddy's shares as part of the sale and issuance Series D preferred stock, with a corresponding offset of \$4.5 million for Mr. Luddy's receivable in prepaid expenses and other current assets. The remaining increase to accrued liabilities was due to the increase in headcount.

Net cash provided by operating activities in fiscal 2009 reflected our net loss of \$5.9 million, which included non-cash compensation expense of \$3.8 million related to the premium paid to Mr. Luddy for the repurchase of common stock in connection with the sale of Series C preferred stock, and the changes in our working capital. The fluctuations in our working capital were primarily attributed to a \$7.0 million increase in deferred revenue and a \$2.4 million increase in accrued liabilities, partially offset by a \$2.0 million increase in accounts receivable and a \$1.2 million increase in deferred commissions. The increase in accrued liabilities included \$0.7 million in withholding taxes associated with the repurchase of Mr. Luddy's shares as part of the sale and issuance Series C preferred stock, with a corresponding offset of \$0.7 million for Mr. Luddy's receivable in prepaid expenses and other current assets.

### ***Investing Activities***

In the three months ended March 31, 2012, cash used in investing activities was primarily attributable to the purchase of \$15.3 million in short-term investments and cash paid for capital expenditures of \$8.6 million primarily related to the purchase of servers, networking equipment and storage infrastructure to support the expansion of our data centers.

In the three months ended March 31, 2011, the six months ended December 31, 2011 and 2010, and fiscal 2011, 2010 and 2009, our investing activities primarily consisted of capital expenditures related to the purchase of servers, networking equipment and storage infrastructure to support the expansion of our data centers and tenant improvements associated with the growth of our office facilities.

### ***Financing Activities***

Our financing activities have primarily consisted of equity issuances, including excess tax benefits from stock award activities.

In the three months ended March 31, 2012, cash provided by financing activities primarily consisted of \$17.9 million in gross proceeds from the issuance of 1,750,980 shares of common stock at a price of \$10.20 per share through a private placement with a new stockholder and \$1.3 million in proceeds from the issuance of common stock through the exercise of employee stock options.

In the three months ended March 31, 2011, we had no significant financing activities.

In the six months ended December 31, 2011, cash provided by financing activities primarily consisted of \$2.1 million in proceeds from the issuance of common stock through the exercise of employee stock options.

In the six months ended December 31, 2010, we had no significant financing activities.

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In fiscal 2011, cash provided by financing activities primarily consisted of \$1.1 million in proceeds from the issuance of common stock through the exercise of employee stock options.

In fiscal 2010, we received net proceeds of \$51.2 million from the sale and issuance of Series D preferred stock, which was used to repurchase and subsequently cancel shares of common stock from eligible stockholders and warrants to purchase Series B preferred stock from a warrant holder.

In fiscal 2009, we received net proceeds of \$5.9 million from the issuance of Series C preferred stock, which was used to repurchase and subsequently cancel shares of common stock from Frederic B. Luddy.

We may continue to raise additional funds through private sales of our equity securities.

### Contractual Obligations and Commitments

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding. The following table represents our contractual obligations as of December 31, 2011, aggregated by type:

Contractual Obligations	Payments Due by Period <sup>(1)</sup>				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
(in thousands)					
Operating leases:					
Data centers <sup>(2)</sup>	\$20,338	\$ 8,284	\$11,857	\$ 197	\$ —
Facilities space <sup>(3)</sup>	14,439	2,795	4,656	3,385	3,603
Total operating leases	<u>\$34,777</u>	<u>\$11,079</u>	<u>\$16,513</u>	<u>\$3,582</u>	<u>\$3,603</u>

(1) Excluded from the table is our liability recorded for uncertain tax positions of \$0.5 million, excluding interest and penalties, at December 31, 2011.

(2) Operating leases for data centers represent our principal commitment for co-location facilities for data center capacity.

(3) Operating leases for facilities space represents our principal commitments, which consists of obligations under leases for office space.

In February 2012, we signed a 94,543 square-foot building lease located in San Diego, California, with total lease consideration of approximately \$13.7 million. The commencement date of the lease is July 1, 2012 for a period of eight years.

In April 2012, we signed a lease for 28,924 square feet of office space located in San Jose, California with total lease consideration of approximately \$1.6 million. We anticipate making significant capital expenditures in the future to support the growth of our business, including additional expansions to our current and future data centers and the continued expansion of our offices and infrastructure.

### Off-Balance Sheet Arrangements

During fiscal 2009, 2010, 2011, the six months ended December 31, 2011 and the three months ended March 31, 2012, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

### Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally

accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenues and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our audited consolidated financial statements.

#### ***Revenue Recognition***

We commence revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service has been provided to the customer;
- The collection of related fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

Signed agreements are used as evidence of an arrangement. If a signed contract by the customer does not exist, we have historically used either a purchase order or a signed order form as evidence of an arrangement. In cases where both a signed contract and either a purchase order or signed order form exist, we consider the signed contract to be the final persuasive evidence of an arrangement.

Subscription revenues are recognized ratably over the contract term beginning on the commencement date of each contract, which is the date we make our service available to our customers. Once our service is available to customers, amounts that have been invoiced are recorded in accounts receivable and in deferred revenue. The majority of our professional services are priced on a fixed-fee basis. A limited number of our professional services are priced on a time-and-materials basis. Professional services and other revenues are recognized as the services are delivered using a proportional performance model. Such services are delivered over a short period of time. In instances where final acceptance of the services are required before revenues are recognized, revenues and the associated costs are deferred until all acceptance criteria have been met.

We assess collectibility based on a number of factors such as past collection history with the customer and creditworthiness of the customer. If we determine collectibility is not reasonably assured, we defer the revenue recognition until collectibility becomes reasonably assured. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. Our arrangements do not include general rights of return.

We have multiple element arrangements comprised of subscription fees and professional services. In October 2009, the Financial Accounting Standards Board, or FASB, ratified authoritative accounting guidance regarding revenue recognition for arrangements with multiple deliverables effective for fiscal periods beginning on or after June 15, 2010. The guidance affects the determination of separate units of accounting in arrangements with multiple deliverables and the allocation of transaction consideration to each of the identified units of accounting. Previously, a delivered item was considered a separate unit of accounting when (i) it had value to the customer on a stand-alone basis, (ii) there was objective and reliable evidence of the fair value of the undelivered items, and (iii) there was no general right of return relative to the delivered services or the performance of the undelivered services was probable

and substantially controlled by the vendor. The new guidance eliminates the requirement for objective and reliable evidence of fair value to exist for the undelivered items in order for a delivered item to be treated as a separate unit of accounting. The guidance also requires arrangement consideration to be allocated at the inception of the arrangement to all deliverables using the relative-selling-price method and eliminates the use of the residual method of allocation. Under the relative-selling-price method, the selling price for each deliverable is determined using vendor-specific objective evidence, or VSOE, of selling price or third-party evidence, or TPE, of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, the guidance requires an entity to determine the best estimate of selling price, or BESP.

Prior to the adoption of this authoritative accounting guidance, we did not have objective and reliable evidence of fair value for the items in our multiple element arrangements. As a result, we accounted for subscription and professional services revenues as one unit of account. Because both the subscription service and the professional services represent separate activities that are priced independently, we recognized total contracted revenues ratably over the contracted term of the subscription agreement.

We adopted the new guidance on a prospective basis for fiscal 2011. As a result, this guidance was applied to all revenue arrangements entered into or materially modified since July 1, 2010. Upon adoption of this authoritative accounting guidance, we have accounted for subscription and professional services revenues as separate units of accounting. To qualify as a separate unit of accounting, the delivered item must have value to the customer on a standalone basis. Our subscription service has standalone value because it is routinely sold separately by us. In determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work. Our professional services, including implementation and configuration services, are not so unique and complex that other vendors cannot provide them. In some instances, our customers independently contract with third-party vendors to do the implementation and we regularly outsource implementation services to contracted third-party vendors. As a result, we concluded that professional services including implementation and configuration services have standalone value. Our on-demand application is fully functional without any additional development, modification or customization. We provide customers access to our subscription service at the beginning of the contract term.

We determine the selling price of each deliverable in the arrangement based on the selling price hierarchy. The selling price for each unit of account is based on the BESP since VSOE and TPE are not available for our subscription service or professional services and other. The BESP for each deliverable is determined primarily by considering the historical selling price of these deliverables in similar transactions as well as other factors, including, but not limited to, market competition, review of stand-alone sales and pricing practices. The total arrangement fee for these multiple element arrangements is then allocated to the separate units of account based on the relative selling price. The method used to determine the BESP for our subscription service is consistent with the method used to determine prices for our services that are sold regularly on a standalone basis. In determining the appropriate pricing structure, we consider the extent of competitive pricing of similar products, marketing analyses and other feedback from analysts. We price our subscription service based on the number of users with a defined process role, according to a tiered structure. The BESP for our subscription service is based upon the historical selling price of these deliverables. Historically, our professional services were priced on a fixed-fee basis as a percentage of the subscription fee. We also prepared a standard build-up cost analysis to estimate the fixed fee for our professional services based on the estimated level of effort to complete the professional services. If professional services were priced below the expected range due to discounting, fees allocated to professional services were limited to the amount that is not contingent upon the delivery of our subscription service. In December 2011, we began shifting our pricing model to a time-and-materials basis.

In limited circumstances, we grant certain customers the right to deploy our subscription service on their own servers without significantly penalty. We have analyzed all of the elements in our multiple element

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arrangements and determined that we do not have sufficient VSOE of fair value to allocate revenue to our subscription service and professional services. We defer all revenue under the arrangement until the commencement of the subscription service and any associated professional services. Once the subscription service and the associated professional services have commenced, the entire fee from the arrangement is recognized ratably over the remaining period of the arrangement.

### **Deferred Commissions**

We defer expenses associated with commission payments to our direct sales force and referral fees paid to independent third-parties. The commissions are deferred and amortized to sales expense over the non-cancelable terms of the related contracts with our customers. The commission payments, which are paid in full the month after the customer's service commences, are a direct and incremental cost of the revenue arrangements. The deferred commission amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. We believe this is preferable to expensing sales commissions as incurred because the commission charges are so closely related to revenues they should be recorded as an asset and charged to expense over the same period the revenues are recognized. Additionally, we believe this policy election enhances the comparability of our consolidated financial statements as it is the predominant method used in our industry.

### **Stock-Based Compensation**

We measure compensation expense for all stock-based payments made to employees and directors based on the fair value of the award as of the date of grant. The expense is recognized, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. We estimate forfeitures based upon our historical experience. At each period end, we review the estimated forfeiture rate and make changes as factors affecting the forfeiture rate calculations and assumptions change.

We use the Black-Scholes option-pricing model to determine the fair value of our stock-based awards. The following assumptions were used for each respective period to calculate our stock-based compensation:

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
Expected volatility	69% - 75%	65%	50% - 69%	57% - 67%	56% - 69%	60% - 69%	55% - 57%
Expected term (in years)	5.62	6.02	6.05	6.04	5.75	6.00	6.04
Risk-free interest rate	1.48% - 3.77%	2.57% - 3.04%	1.43% - 2.96%	1.43% - 2.96%	0% - 1.92%	2.30% - 2.67%	0.99% - 1.18%
Dividend yield	—%	—%	—%	—%	—%	—%	—%

Determining the fair value under this model requires the use of inputs that are subjective and generally require significant analysis and judgment to develop. These inputs include the fair value of our common stock, expected volatility, expected term, risk-free interest rate, and expected dividend yield, which are estimated as follows:

- *Fair value of our common stock:* Because our stock is not publicly traded, we must estimate the fair value of our common stock, as discussed in “— Common Stock Valuations” below.
- *Expected volatility:* We use the historic volatility of publicly traded peer companies as an estimate for our expected volatility. In considering peer companies, we assess characteristics such as industry, stage of development, size, and financial leverage. For each period, the peer group of publicly traded companies used to determine expected volatility was the same as the peer group used to determine the fair value of our common stock.
- *Expected term:* We estimate the expected term using the simplified method due to the lack of historical exercise activity for our company. The simplified method calculates the expected term as the mid-point between the vesting date and the contractual expiration date of the award.

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- *Risk-free interest rate:* The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the stock-based award.
- *Dividend yield:* Our expected dividend yield is zero, as we have not and do not currently intend to declare dividends in the foreseeable future.

If any assumptions used in the Black-Scholes model change significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously.

### **Common Stock Valuations**

The fair value of the common stock underlying our stock options was determined by our board of directors, which intended all options granted to be exercisable at a price per share not less than the per share fair value of our common stock underlying those options on the date of grant. The valuations of our common stock were determined in accordance with the guidelines outlined in the *American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The assumptions we use in the valuation model are based on future expectations combined with management judgment. In the absence of a public trading market, our board of directors with input from management exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of our common stock as of the date of each option grant, including the following factors:

- contemporaneous independent valuations performed at periodic intervals;
- the prices, rights, preferences and privileges of our convertible preferred stock relative to the common stock;
- recent sales of our common stock;
- our operating and financial performance and forecast;
- current business conditions;
- the hiring of key personnel;
- our stage of development;
- the likelihood of achieving a liquidity event for the shares of common stock underlying these stock options, such as an initial public offering or sale of our company, given prevailing market conditions;
- any adjustment necessary to recognize a lack of marketability for our common stock;
- the market performance of comparable publicly traded technology companies;
- mergers and acquisition activity in our industry; and
- the U.S. and global capital market conditions.

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The following table summarizes, by grant date, information regarding shares of common stock subject to stock options and RSUs granted from July 1, 2010:

<u>Grant Date</u>	<u>Number of Shares Underlying Options</u>	<u>Exercise Price Per Share</u>	<u>Common Stock Fair Value Per Share on Date of Grant</u>	<u>Number of Shares Underlying RSUs</u>
July 2010	4,646,000	\$ 1.50	\$ 1.50	—
October 2010	1,510,000	1.88	1.88	—
February 2011	1,578,000	2.20	2.20	—
March 2011	100,000	2.20	2.20	—
May 2011	7,568,456	2.60	2.60	—
July 2011	5,700,128	3.00	3.75	—
August 2011	3,438,044	3.00	3.75	—
September 2011	2,977,948	3.00	3.75	—
October 2011	1,151,000	3.00	3.75	—
November 2011	2,119,000	4.00	4.30	—
December 2011	1,669,000	4.65	5.00	—
January 2012	796,500	6.50	6.50	—
February 2012	1,500,750	9.40	9.40	—
March 2012	662,250	10.35	10.35	1,000,000
April 2012	793,000	11.00	11.00	—
May 2012	799,750	12.45	12.45	—

Based upon the assumed initial public offering price of \$        per share, the aggregate intrinsic value of awards outstanding as of       , 2012 was \$        million, of which \$        million related to vested awards and \$        million related to unvested awards.

In order to determine the fair value of our common stock underlying award grants, we considered contemporaneous valuations of our stock. We utilize the probability weighted expected return method, or PWERM, approach to allocate value to our common shares. The PWERM approach employs various market approach and income approach calculations depending upon the likelihood of various liquidation scenarios. For each of the various scenarios, an equity value is estimated and the rights and preferences for each stockholder class are considered to allocate the equity value to common shares. The common share value is then multiplied by a discount factor reflecting the calculated discount rate and the timing of the event. Lastly, the common share value is multiplied by an estimated probability for each scenario. The probability and timing of each scenario are based upon discussions between our board of directors and our management team. Under the PWERM, the value of our common stock is based upon four possible future events for our company:

- initial public offering, or an IPO;
- strategic merger or sale;
- remaining a private company; and
- dissolution.

The market approach uses similar companies or transactions in the marketplace. We utilized the guideline company method of the market approach for determining the fair value of our common stock under the initial public offering scenario. We identified companies similar to our business and used these guideline companies to develop relevant market multiples and ratios. We selected the peer group of companies based on their size, business model, industry, business description and developmental stage. While we believe that our proprietary platform to automate enterprise IT operations that we provide to our customers differentiates us from other software companies, we selected this peer group from publicly traded companies that are similarly viewed as being in the information technology industry and offering their services under a SaaS business model. We then applied these market multiples and ratios to our financial forecasts to create an indication of total equity value. Under the strategic merger or sale scenario, we utilized the guideline company method and the guideline transaction method of the market approach to determine the fair value of the common stock. The guideline

transaction method compares the operating results and market value of the equity or invested capital of acquired companies similar to our business. The income approach, which we utilize to assess fair value of the common stock under the assumption we remain a private company, is an estimate of the present value of the future monetary benefits generated by an investment in that asset. Specifically, debt free cash flows and the estimated terminal value are discounted at an appropriate risk-adjusted discount rate to estimate the total invested capital value of the entity. Under the dissolution scenario, we assumed no value remained to be allocated to our common stockholders. We continually reviewed and updated the selection of companies in the peer group of publicly traded companies to better reflect the size and developmental stage of our company and to account for the acquisition of certain of the peer companies.

Significant factors considered by our board of directors in determining the fair value of our common stock at these grant dates include:

*July 2010.* The United States economy and the financial markets were continuing to recover from the global financial crisis that began in 2008 and continued in 2009. Because our service offered a cost effective alternative to legacy IT management products in a period where companies were looking to cut budgets, we continued to experience significant increases in revenue growth. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$1.50 per share. The valuation reflected a 35% probability of an IPO, 30% probability of a strategic merger or sale, 30% probability of remaining a private company, and 5% probability of dissolution. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$1.50 per share. The valuation used a risk-adjusted discount rate of 30.0% and a non-marketability discount of 15%.

*October 2010.* The United States economy and the financial markets continued to recover during the quarter. Consistent with our projections, revenues increased 14% during the quarter ended September 30, 2010 when compared to the prior quarter ended June 30, 2010. In addition, headcount increased 23% from June 30, 2010 to September 30, 2010 due to our continued focus on growth. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$1.88 per share as of September 30, 2010. The valuation continued to reflect a 35% probability of an IPO, 30% probability of a strategic merger or sale, 30% probability of remaining a private company, and 5% probability of dissolution. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$1.88 per share. The valuation used a risk-adjusted discount rate of 30.0% and a non-marketability discount of 20%.

*February 2011 and March 2011.* The United States economy and the financial markets continued to recover. During the quarter ended December 2010, revenues and headcount increased 29% and 14%, respectively, when compared to the prior quarter ended September 30, 2010. Our board of directors commenced the search for a new Chief Executive Officer and we added two independent board members to our board of directors. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$2.20 per share as of February 4, 2011. The valuation continued to reflect a 35% probability of an IPO, 30% probability of a strategic merger, 30% probability of remaining a private company, and 5% probability of dissolution. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$2.20 per share in February and March 2011. The valuation used a risk-adjusted discount rate of 32.5% and a non-marketability discount of 20%.

*May 2011.* The United States economy and the financial markets continued to recover. Consistent with prior quarters, we experienced sequential growth during the quarter ended March 31, 2011 as shown by the increase in revenues and headcount of 18% and 21%, respectively, from December 31, 2010 to March 31, 2011. Additionally, we hired a new Chief Executive Officer in early May 2011 who had experience with high growth companies in order to significantly expand our operations and build an infrastructure capable of meeting this growth. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$2.60 per share as of May 6, 2011. The probability weightings of the various scenarios were adjusted from prior valuations to 40% probability of an IPO and 60% probability of a strategic merger or sale. The implied revenue



multiple resulting from the estimated exit value for the IPO liquidity event was 5.7x, which was between the minimum and the lower quartile of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 5.2x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum transaction multiples for the public company transactions. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$2.60 per share. The increase in our common stock valuation between March 2011 and May 2011 can be attributed primarily to improved market conditions and a shorter time to an expected liquidity event than was anticipated in March 2011. The valuation used a risk-adjusted discount rate of 23.4% and a non-marketability discount of 15%.

*July 2011.* The United States economy and the financial markets began to experience volatilities related to certain global financial uncertainties. During the quarter ended June 30, 2011, our revenues increased 17%, compared to the prior quarter, as customers continued to view our service as a cost effective alternative to legacy IT management products. In addition, headcount increased 24% from March 31, 2011 to June 30, 2011. In addition, by July 2011, our new Chief Executive Officer had begun to develop his initial evaluation of our operations, management and prospects. Based on this evaluation, we determined to focus on long-term growth as an independent company, which would likely include an initial public offering, and de-emphasize pursuit of a strategic acquisition. We also identified a number of operational, infrastructure and process risks to our success in implementing that new focus, and changes that we would need to make in order to reduce these risks. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$3.00 per share as of July 22, 2011. The probability weightings of the various scenarios were 55% probability of an IPO, 15% probability of a strategic merger or sale, and 30% probability of remaining a private company. The median peer group revenue multiple declined from 9.9x in May 2011 to 8.3x in July 2011. This decline was representative of the general decline in the valuations of the peer group companies during this period. Our board of directors carefully considered the decline in the valuation of the peer group companies during this period. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 6.1x, which was between the lower quartile and the median of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 6.7x, which exceeded the maximum private company transaction multiple and was between the mean and the upper quartile transaction multiples for the public company transactions. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$3.00 per share. In connection with the preparation of our December 31, 2011 financial statements, we revised the valuation analysis of our common stock as of July 22, 2011 for changes to certain assumptions, primarily related to the selected discount rate, comparable companies and terminal value, and determined the fair value to be \$3.75 per share for financial accounting and reporting purposes for these grants. The increase in our common stock valuation between May 2011 and July 2011 can be attributed primarily to our continued growth, strong financial performance and the addition of several new executives to the management team, despite the unfavorable market conditions encountered during this period. The revised valuation used a risk-adjusted discount rate of 24.0% and a non-marketability discount of 15%.

*August 2011, September 2011, and October 2011.* Between June 2011 and November 2011, in order to address the operational, infrastructure and process challenges we identified, we hired a number of new executive officers, including a new Senior Vice President of Worldwide Sales and Services in June 2011, a new Chief Financial Officer in August 2011, a new Senior Vice President of Engineering in August 2011 and a new Chief Technology Officer in September 2011. Throughout this period, and with the assistance of the new executive officers, we continued to assess our operations and prospects and implemented several strategic initiatives in support of long-term growth. For example, our Senior Vice President of Worldwide Sales and Services led our effort to grow our sales and marketing organization from 140 employees on July 30, 2011 to 242 employees on December 31, 2011 and our Chief Technology Officer led an effort to redesign our data center strategy from a third-party hosted model to a co-location model and make several significant operational and efficiency improvements to our hosting infrastructure. Until the new executive officers had fully assessed our operations and prospects, and reviewed the impact of the operational changes we were initiating during this period, it was

unclear to us whether our value or future prospects had changed. In addition, during the quarter ended September 30, 2011, annual contract value of orders during the quarter were 13% below our target. This shortfall was attributable to a significant number of new people in the sales organization and a slower than anticipated time to ramp new sales people to full productivity, and uncertainty in the financial markets in September 2011 which caused customers to delay orders. Based on our assessment of our performance and market conditions during this period, and the uncertainty regarding our new management team's ability to successfully implement our operational changes and strategies, our board of directors granted options with an exercise price of \$3.00 per share in August 2011, September 2011 and October 2011. Because of this conclusion, we determined not to perform contemporaneous valuations of our common stock in August 2011, September 2011 or October 2011. In addition, as mentioned above, in connection with the preparation of our December 31, 2011 financial statements, we revised the valuation analysis of our common stock granted in August 2011, September 2011 and October 2011, and determined the fair value to be \$3.75 per share for financial accounting and reporting purposes for these grants.

*November 2011.* The United States economy and the financial markets began to stabilize from the uncertainty and high volatility. During the quarter ended September 30, 2011, revenues and headcount increased 16% and 31%, respectively, from June 30, 2011 to September 30, 2011. Headcount increased 12% during the month of October 2011. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$4.00 per share as of November 4, 2011. During this period our relatively new management team began reassessing the timelines for various liquidity scenarios. Consequently, the probability weightings of the various scenarios were adjusted from prior periods to 30% probability of an IPO, 20% probability of a strategic merger or sale and 50% probability of remaining a private company. The median peer group revenue multiple declined further from 8.3x in July 2011 to 7.0x in November 2011. This decline was representative of the continuing general decline in the valuations of the peer group companies during this period. On October 24, 2011, Oracle Corporation announced the acquisition of RightNow Technologies, Inc., one of the companies represented in our peer group, at an implied valuation of approximately 7.0x trailing revenue. This valuation reflected premiums of approximately 20%, 10%, and 37% over RightNow Technologies, Inc.'s public trading values from one day, one week, and one month prior, respectively. Our board of directors carefully considered the general decline in the valuation of the peer group companies during this period as well as the acquisition of RightNow Technologies, Inc. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 6.4x, which was between the minimum and the lower quartile of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 7.6x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum transaction multiples for the public company transactions. Additionally, we updated both our financial and growth projections. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$4.00 per share. In connection with the preparation of our December 31, 2011 financial statements, we revised the valuation analysis of our common stock as of November 4, 2011 for changes to certain assumptions, primarily related to the selected discount rate, comparable companies and terminal value, and determined the fair value to be \$4.30 per share for financial accounting and reporting purposes for these grants. The increase in our common stock valuation between July 2011 and November 2011 can be attributed primarily to improving market conditions, the increased visibility in our future operating performance afforded by our updated financial and growth projections prepared by the new management team, and the valuation of RightNow Technologies, Inc. These positive factors were offset by an extension in the timeline to an expected liquidity event resulting from management's reassessment of the timelines and weightings for the various liquidity scenarios. The revised valuation used a risk-adjusted discount rate of 34.4% and a non-marketability discount of 19%.

The reduction in the probability of an IPO from 55% in July 2011 to 30% in November 2011 was primarily a result of an assessment by our board of directors of the readiness of our company to be a public company, including consideration of the tenure of the management team and the shortfall in targeted annual contract value of orders in the quarter ended September 30, 2011. The increase in the risk-adjusted discount rate from 24.0% in July 2011 to 34.4% in November 2011 reflects the additional risk associated with achieving our substantially

more aggressive financial and growth projections developed in our revised operating plan that was approved by our board of directors in November 2011. The increase in the non-marketability discount from 15% in July 2011 to 19% in November 2011 reflects the extension of the timeline to a potential liquidity event resulting from management's reassessment of the timelines for the various liquidity scenarios.

*December 2011.* The United States economy and the financial markets continued to stabilize from the uncertainty and high volatility. In addition, investor confidence in the IPO markets began to increase as a number of technology companies began expressing interest in IPOs. Furthermore, our revenues continued to increase month over month consistent with management's expectations. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$4.65 per share as of December 7, 2011. The probability weightings of the various scenarios were 55% probability of an IPO, 25% probability of a strategic merger or sale and 20% probability of remaining a private company. The median peer group revenue multiple increased from 7.0x in November 2011 to 7.8x in December 2011. This increase was representative of the general increase in the valuations of the peer group companies during this period. On December 3, 2011, SAP America, Inc. announced the acquisition of SuccessFactors, Inc., one of the companies represented in our peer group, at an implied valuation of approximately 12.0x trailing revenue. This valuation reflected premiums of approximately 52%, 77%, and 46% over SuccessFactors, Inc.'s public trading values from one day, one week, and one month prior, respectively. Our board of directors carefully considered the general increase in the valuation of the peer group companies during this period as well as the acquisition of SuccessFactors, Inc. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 6.9x, which was between the lower quartile and the median of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 7.2x, which exceeded the maximum private company transaction multiple and was between the mean and the upper quartile transaction multiples for the public company transactions. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$4.65 per share. In connection with the preparation of our December 31, 2011 financial statements, we revised the valuation analysis of our common stock as of December 7, 2011 for changes to certain assumptions, primarily related to the selected discount rate, comparable companies and terminal value, and determined the fair value to be \$5.00 per share for financial accounting and reporting purposes for these grants. The increase in our common stock valuation between November 2011 and December 2011 can be attributed primarily to the continued improvement in market conditions, our strong financial performance, an increase in the probability of an IPO or strategic merger or sale relative to remaining a private company, and the valuation of SuccessFactors, Inc. The revised valuation used a risk-adjusted discount rate of 34.2% and a non-marketability discount of 15%.

*January 2012.* The financial markets strengthened at the end of December 2011 and continued to strengthen through early January 2012. We exited the quarter ended December 31, 2011 with record revenues, representing 15% growth over the quarter ended September 30, 2011. We also gained more confidence in our ability to forecast our business, as annual contract value of orders during the quarter ended December 31, 2011 were 109% of our target. However, a substantial portion of orders during the quarter were received in the last four weeks of the quarter, with 68% of the quarter's orders received in the month of December, and 47% of the orders received in the last two weeks of December. Headcount increased 23% from September 30, 2011 to December 31, 2011, and the strategic objectives of our management team for a liquidity event began to focus more on an IPO. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$6.50 per share as of January 11, 2012. The probability weightings of the various scenarios were 75% probability of an IPO, 10% probability of a strategic merger or sale and 15% probability of remaining a private company. The median peer group revenue multiple declined from 7.8x in December 2011 to 7.7x in January 2012. This decline was representative of the slight decline in the valuations of the peer group companies during this period. Our board of directors carefully considered the slight decline in the valuation of the peer group companies during this period. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 7.7x, which was between the median and the upper quartile of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 11.4x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum transaction multiples for the public company transactions. The valuation used a risk-adjusted

discount rate of 28.3% and a non-marketability discount of 12%. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$6.50 per share. The increase in our common stock valuation between December 2011 and January 2012 can be attributed primarily to the continued improvement in market conditions, our continued strong financial performance, and an increase in the probability of an IPO relative to other exit alternatives.

*February 2012.* The United States economy and the financial markets continued with a strong start to 2012. We continued to see strength in our business and continued to rapidly expand our employee base, increasing headcount by 6% from December 2011 to January 2012. Given the strength in the financial markets as shown by the number of companies filing for an IPO, and the strength in our business and our board of directors' confidence in the new management team, we commenced discussions with bankers to explore the potential of an IPO. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$9.40 per share as of February 3, 2012. The probability weightings of the various scenarios were 85% probability of an IPO, 10% probability of a strategic merger or sale and 5% probability of remaining a private company. The median peer group revenue multiple increased from 7.7x in January 2012 to 8.6x in February 2012. This increase was representative of the general increase in the valuations of the peer group companies during this period. On February 9, 2012, Oracle Corporation announced the acquisition of Taleo Corp., one of the companies represented in our peer group, at an implied valuation of approximately 5.70x trailing revenue. This valuation reflected premiums of approximately 18%, 24%, and 24% over Taleo Corp.'s public trading values from one day, one week, and one month prior, respectively. Our board of directors carefully considered the general increase in the valuation of the peer group companies during this period as well as the acquisition of Taleo Corp. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 11.3x, which was between the median and the upper quartile of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 13.2x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum transaction multiples for the public company transactions. The valuation used a risk-adjusted discount rate of 28.3% and a non-marketability discount of 11%. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$9.40 per share. The increase in our common stock valuation between January 2012 and February 2012 can be attributed primarily to the continued improvement in market conditions, our continued strong financial performance, our commencement of discussions with bankers to explore the potential of an IPO, an increase in the probability of an IPO relative to other exit alternatives, and the valuation of Taleo Corp.

*March 2012.* In February 2012 we held our organization meeting with investment bankers. On February 21, 2012, we sold and issued 1,750,980 shares of common stock at \$10.20 per share in a private placement to entities associated with Greylock Partners. As part of the same transaction, Frederic B. Luddy sold 700,000 of his shares of common stock to Greylock at the same price. On March 9, 2012 we received notice from a former employee of his proposed sale of 100,000 shares of our common stock to an investor at a purchase price of \$10.00 per share. On March 16, 2012 we received notice from a former employee of his proposed sale of 6,666 shares of our common stock to an investor at a purchase price of \$12.00 per share. Pursuant to the 2005 Stock Plan Exercise Notices, we exercised our right of first refusal to purchase the shares. We continued to hire employees at a rapid pace growing our headcount by 8% in February 2012. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$10.35 per share as of March 9, 2012. The probability weightings of the various scenarios were 90% probability of an IPO, 5% probability of a strategic merger or sale and 5% probability of remaining a private company. The median peer group revenue multiple increased from 8.6x in February 2012 to 9.1x in March 2012. This increase was representative of the continuing increase in the valuations of the peer group companies during this period. Our board of directors carefully considered the continuing increase in the valuation of the peer group companies during this period. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 11.8x, which was between the median and the upper quartile of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 12.8x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum

transaction multiples for the public company transactions. The valuation used a risk-adjusted discount rate of 28.4% and a non-marketability discount of 11%. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$10.35 per share. The increase in our common stock valuation between February 2012 and March 2012 can be attributed primarily to the continued improvement in market conditions, our continued strong financial performance, our progress made toward a potential IPO, and an increase in the probability of an IPO relative to other exit alternatives.

*April 2012.* We continued to see strength in the financial markets and in our business. Revenues grew 21% during the quarter ended March 31, 2012 as compared to the prior quarter ended December 31, 2011. On March 30, 2012, we filed our initial registration statement. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$11.00 per share as of April 9, 2012. The probability weightings of the various scenarios were 95% probability of an IPO, and 5% probability of a strategic merger or sale. The median peer group revenue multiple increased from 9.1x in March 2012 to 9.3x in April 2012. This increase was representative of the continuing general increase in valuations of the peer group companies during this period. Our board of directors carefully considered the continuing increase in the valuation of the peer group companies during this period. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 11.7x, which was between the median and the upper quartile of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 12.3x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum transaction multiples for the public company transactions. The valuation used a risk-adjusted discount rate of 28.3% and a non-marketability discount of 8%. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$11.00 per share. The increase in our common stock valuation between March 2012 and April 2012 can be attributed primarily to the continued improvement in market conditions, our continued strong financial performance, our progress made toward a potential IPO, and an increase in the probability of an IPO relative to other exit alternatives. Further, on April 10, 2012 we received notice from former employees of their proposed sale of an aggregate of 77,498 shares of our common stock to investors at a purchase price of \$11.50 per share. Pursuant to our 2005 Stock Plan, we exercised our right of first refusal to purchase 42,498 shares.

*May 2012.* We continued to see strength in our business, even though the financial markets began to show some weakness. We continued to rapidly expand our employee base, increasing headcount 8% from March 2012. We performed a contemporaneous valuation of our common stock and determined the fair value to be \$12.45 per share as of May 7, 2012. The probability weightings of the various scenarios were 95% probability of an IPO, and 5% probability of a strategic merger or sale. The median peer group revenue multiple decreased from 9.3x in April 2012 to 8.2x in May 2012. This decrease was representative of the general decrease in valuations of the peer group companies during this period as well as other high growth technology companies. Our board of directors carefully considered the change in the valuation of the peer group companies during this period. The implied revenue multiple resulting from the estimated exit value for the IPO liquidity event was 12.1x, which was between the upper quartile and the maximum of the last 12-month peer group revenue multiples. The implied revenue multiple resulting from the estimated exit value for the strategic merger or sale liquidity event was 12.4x, which exceeded the maximum private company transaction multiple and was between the upper quartile and the maximum transaction multiples for the public company transactions. The valuation used a risk-adjusted discount rate of 28.1% and a non-marketability discount of 4%. Based on the valuation and the factors described herein, our board of directors granted stock options with an exercise price of \$12.45 per share. The increase in our common stock valuation between March 2012 and April 2012 can be attributed primarily to our continued strong financial performance, our progress made toward a potential IPO, and an increase in the probability of an IPO relative to other exit alternatives. Further, pursuant to our 2005 Stock Plan, we exercised our right of first refusal to purchase 35,000 shares from a former employee at a purchase price of \$11.50 per share on May 7, 2012.

Due to our additional option grants since March 31, 2012, we expect to recognize total incremental compensation expense of \$9.1 million, net of estimated forfeitures, of which \$1.7 million, \$2.3 million, \$2.3 million, \$2.3 million and \$0.5 million will be recognized during the years ending December 31, 2012, 2013,

2014, 2015 and 2016, respectively. In future periods, our stock-based compensation expense is expected to increase as a result of our existing unrecognized stock-based compensation and as we issue additional stock awards to continue to attract and retain employees and independent directors.

## **Income Taxes**

Our provision for income taxes, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our best assessment of estimated future taxes to be paid. Significant judgments and estimates based on interpretations of existing tax laws or regulations in the United States and the numerous foreign jurisdictions where we are subject to income tax are required in determining our provision for income taxes. Changes in tax laws, statutory tax rates, and estimates of our future taxable income could impact the deferred tax assets and liabilities provided for in the consolidated financial statements and would require an adjustment to the provision for income taxes.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when we believe it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating our ability to recover deferred tax assets within the jurisdiction in which they arise we consider all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, our history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

We recognize the impact of a tax position in our consolidated financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Tax authorities regularly examine our returns in the jurisdictions in which we do business and we regularly assess the tax risk of our return filing positions. Due to the complexity of some of the uncertainties, the ultimate resolution may result in payments that are materially different from our current estimate of the tax liability. These differences, as well as any interest and penalties, will be reflected in the provision for income taxes in the period in which they are determined.

## **Recent Adopted Accounting Standards**

In June 2011, the FASB issued Accounting Standards Update, or ASU, No. 2011-05, "*Presentation of Comprehensive Income*." This update requires companies to present reclassification adjustments included in other comprehensive income on the face of the consolidated financial statements and allows companies to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for companies to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective for fiscal periods beginning after December 15, 2011, with earlier adoption permitted. We retroactively adopted this guidance during the six-month period ended December 31, 2011 to present the components of net income and the components of other comprehensive income in a single continuous statement of comprehensive income. Adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

## **Qualitative and Quantitative Disclosures about Market Risk**

### ***Foreign Currency Exchange Risk***

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro, British Pound Sterling, Canadian dollar, Swiss franc, and Australian dollar. Revenues outside of North America as a percentage of revenue was 27%, 28%, and 25% in fiscal 2009, 2010 and

2011, respectively, 26% and 29% during the six months ended December 31, 2010 and 2011, respectively, and 26% and 28% during the three months ended March 31, 2011 and 2012, respectively. Changes in exchange rates may negatively affect our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. We recognized foreign currency gains of \$0.5 million, \$1.6 million, \$0.2 million and \$0.5 million in fiscal 2010, the six months ended December 31, 2011 and the three months ended March 31, 2011 and 2012, respectively. We had an immaterial foreign currency loss in fiscal 2009 and we recognized a foreign currency loss of \$0.3 million and \$0.6 million in the six months ended December 31, 2010 and fiscal 2011. While we have not engaged in the hedging of our foreign currency transactions to date, we are presently evaluating the costs and benefits of initiating such a program and may in the future hedge selected significant transactions denominated in currencies other than the U.S. Dollar.

#### ***Interest Rate Sensitivity***

In February 2012, we began investing a portion of our cash in corporate debt securities. The primary objectives of our investment activities are the preservation of capital and supporting our liquidity requirements. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, however, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. We therefore do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

## BUSINESS

### Overview

ServiceNow is a leading provider of cloud-based services to automate enterprise IT operations. Our service includes a suite of applications built on our proprietary platform that automates workflow and integrates related business processes. We focus on transforming enterprise IT by automating and standardizing business processes and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, to lower operational costs and to enhance efficiency. Additionally, our customers use our extensible platform to build custom applications for automating activities unique to their business requirements.

We help transform IT organizations from reactive, manual and task-oriented, to pro-active, automated and service-oriented organizations. Our on-demand service enables organizations to define their IT strategy, design the systems and infrastructure that will support that strategy, and implement, manage and automate that infrastructure throughout its lifecycle. We provide a broad set of integrated applications that are highly configurable and can be efficiently implemented and upgraded. Further, our multi-instance architecture has proven scalability for global enterprises, as well as advantages in security, reliability and deployment location.

We offer our service under a Software-as-a-Service, or SaaS, business model. Customers can rapidly deploy our service in a modular fashion, allowing them to solve immediate business needs and access, configure and build new applications as their requirements evolve. Our service, which is accessed through an intuitive web-based interface, can be easily configured to adapt to customer workflow and processes. Upgrades to our service are designed to be efficient and compatible with configuration changes and applied with minimal disruption to ongoing operations.

We have achieved significant growth in recent periods. A majority of our revenues comes from large, global enterprise customers. Our total customers grew 61% from 668 as of March 31, 2011 to 1,074 as of March 31, 2012. Our customers operate in a wide variety of industries, including financial services, IT services, health care, technology and utilities. For the fiscal years ended June 30, 2010 and 2011, our revenues grew 114% from \$43.3 million to \$92.6 million. We incurred a net loss of \$29.7 million and generated net income of \$9.8 million for the fiscal years ended June 30, 2010 and 2011, respectively. For the six months ended December 31, 2010 and 2011, our revenues grew 93% from \$37.9 million to \$73.4 million. We generated net income of \$4.8 million and incurred a net loss of \$6.7 million for the six months ended December 31, 2010 and 2011, respectively. For the three months ended March 31, 2011 and 2012, our revenues grew 88% from \$25.2 million to \$47.4 million. We generated net income of \$3.0 million and incurred a net loss of \$5.6 million for the three months ended March 31, 2011 and 2012, respectively.

### Our Industry

#### *Enterprises Face Increasing Challenges in Managing and Automating IT Operations*

For decades, enterprises have invested in IT to empower their workforces and enable business critical functionality. This investment reflects enterprise dependence on a myriad of software applications, databases, operating systems, servers, networking equipment, personal computers, mobile devices, and a variety of other hardware and software assets. When managing the IT environment, enterprises face significant challenges:

*Complexity of IT environments.* The accelerating adoption of cloud-based services, virtual servers and desktops, and mobile technologies has added to the complexity of enterprise IT environments.



*Budget pressures.* IT executives are consistently asked to deliver more value for less cost, and to provide transparency regarding the true costs and business value of IT investments. The most recent downturn in the global economy has heightened these demands.

*Alignment to business goals.* IT organizations are increasingly asked to be proactive and design and develop new processes that span the entire enterprise, rather than support a set of discrete technologies and react to business changes. IT organizations must develop strategies to enable necessary business changes. This has resulted in a much greater need for alignment of IT strategy and performance with overall business performance.

*Consumerization of IT.* Individuals are spending more time interacting with intuitive, social and mobile consumer-oriented Internet services. These experiences have increased business users' expectations that they can access and interact with corporate IT technologies in a similar, familiar way. IT organizations are struggling to respond to these increased demands in a cost-effective manner.

*Integration and standardization.* Enterprises need integrated and standardized solutions that work with their existing systems and follow the most recent Information Technology Infrastructure Library, or ITIL, standard, a set of recommended business processes designed and adopted by IT operations industry participants globally to maximize the availability and usability of IT assets and the efficiency of IT staff.

### ***Legacy IT Management Products Fall Short***

Organizations have invested heavily in legacy software products to manage the inventory, cost and performance of IT resources. These traditional software products were originally architected in the 1980s and 1990s before the introduction of many of today's modern computing technologies. Shortcomings of these legacy products include:

*Disparate and redundant solutions.* Many legacy IT management products were developed and widely deployed decades ago. Vendors of these products have in many cases relied upon acquisitions and partnerships to extend their offerings and have not re-architected their solutions to provide the seamless, integrated platform that customers desire. In addition, enterprises may have overlapping solutions in various business units, especially those that have grown by acquisition or that operate globally. As a result, many enterprises operate multiple systems and infrastructures. Moreover, we believe that in most large enterprises IT professionals and business users frustrated with the lack of integrated applications have created a large number of custom applications, spreadsheets and paper-based systems to address specific business needs. As a result of these disparate solutions, executives lack a single system of record to manage their IT operations.

*Inflexible integration, customization and maintenance.* Enterprises face numerous challenges when trying to customize legacy IT management products to meet their specific needs, as well as integrate them with third-party solutions. Due to their architectures and proprietary languages, these inflexible products often cannot be easily customized to meet customers' business requirements and are difficult to integrate and maintain. As a result, enterprises may be required to adapt their business processes to the capabilities of the software.

*Highly manual.* Many legacy IT management products installed today require experienced and expensive IT staff to manually process service requests and manage IT operations. Database administrators, system administrators and network managers are often required to perform complex and repetitive tasks such as installing an application, applying a software patch, copying a production database, rebooting a server or provisioning a virtual machine. These manual tasks are time-consuming, prone to error and prevent IT from rapidly responding to business needs.

*Upgrade challenges and disruption of service.* Once legacy IT management products have been installed, integrated and customized, upgrades can be challenging. As new versions of the software are released on a periodic basis, customers are often required to re-implement the updated software with limited ability to carry

forward customizations. The upgrade process for legacy solutions can be lengthy, and is frequently disruptive to the business.

*Difficult to use and access.* Many legacy IT management products lack a modern, easy to navigate user interface and were not originally designed to be accessed over the Internet or on mobile devices. These applications require a significant amount of user training and may have low rates of adoption across organizations, reducing return on investment. Further, if users do not adopt software, they may not execute processes in accordance with defined standards, which can lead to system failures.

*High total cost of ownership.* Because legacy IT management products are often disparate, inflexible, highly manual, challenging to upgrade, and difficult to use and access, we believe these products have a high total cost of ownership.

#### **Requirements for Next-generation Enterprise IT Operations Management**

We believe best-in-class, next generation enterprise IT operations management needs to incorporate the following key elements:

- *Complete, integrated solution.* A single system of record for all IT assets, activities and resources across multiple systems and infrastructures currently in use in large enterprises.
- *Closed loop automation.* An end-to-end, secure and auditable solution to automate service-oriented workflows and execute routine IT processes, both simple and complex.
- *Easily configurable and extensible.* Highly configurable to accommodate unique customer-specific workflow, systems infrastructure, and organizational structure.
- *Efficient implementations.* Immediate access and rapid deployment, and interoperable with other IT solutions.
- *Automated and non-disruptive upgrades.* Allows upgrades to be applied by the vendor in an automated fashion, minimizing system downtime, costly professional services engagements and manual intervention by the customer, while preserving forward compatibility with future releases.
- *Scalable, secure and reliable.* Scales to simultaneously and securely support the user and data capacity demands of the largest global enterprises.

#### **Our Opportunity**

Our service addresses a number of established enterprise IT management software markets. In particular, our service addresses such markets defined by Gartner as IT service desk and help desk, asset management, availability and performance management (distributed), project and portfolio management, job scheduling and runbook automation (distributed), configuration management and network management (distributed). In aggregate, Gartner estimates that the software revenues in these markets will total \$13.6 billion in 2012, growing to \$19.8 billion in 2016. Beyond these markets, we believe our service has the potential to address a wide variety of additional enterprise application and infrastructure software markets.

#### **Our Solution**

We help transform IT organizations from reactive, manual and task-oriented, to pro-active, automated and service-oriented organizations. Our on-demand service includes a suite of applications that runs on a common extensible platform that enables organizations to define their IT strategy, design the systems and infrastructure that will support that strategy, and implement, manage and automate that infrastructure throughout its lifecycle. Our cloud-based service includes the following key elements.

### **Key Elements**

*Broad set of integrated functionality.* Our suite of applications was developed to address core ITIL processes as well as additional business processes, and runs on a single extensible platform. Our platform includes workflow automation, notification, assignment and escalation, third-party integration capabilities, reporting and administration capabilities. Our cloud-based service is designed to be deployed in a modular fashion, allowing customers to solve immediate business needs and access new application functionality as needs evolve.

*Automation of IT operations.* Our service automates the documentation, categorization, prioritization, assignment, notification and escalation of IT and other business processes. Additionally, our service automates routine and repeatable data center operations such as rebooting a server, cloning a database or deploying a virtualized environment. These elements of automation result in more consistent, reliable and secure execution, allowing the reallocation of expensive IT staff to more complex issues.

*Highly configurable and extensible to meet business needs.* Our configuration features are designed to give customers the ability to easily alter the appearance and operation of the user interface, change and develop business rules to meet specific requirements, and extend the database schema to support the tracking and capturing of necessary data. As a result, our service enables management of IT operations without requiring changes to existing business processes. In addition, our customers and partners can use our platform to build applications to automate processes that are unique to their businesses.

*Efficient implementations and integration.* Our cloud-based model allows customers to quickly access and deploy our service without the need to install and maintain costly infrastructure hardware and software necessary for on-premises deployments. We believe the average time that a customer requires to deploy our service is significantly shorter than for typical legacy IT management products. We also offer consulting and training services to assist customers in rapidly deploying and optimizing their use of our service. Our service is developed on an architecture that enables efficient integration to third-party architectures and other data sources.

*Efficient upgrades.* We design our upgrades to be compatible with customer configuration changes and applied rapidly with minimal disruption to ongoing operations, enabling customers to be on the most up-to-date version. Upgrades are included as part of the subscription service and do not require professional services to implement.

*Scalable, secure and reliable multi-instance architecture.* Our customers require scalability, security and reliability for their large, global businesses. Our multi-instance architecture is designed to meet these requirements. By providing customers with dedicated applications and databases we ensure that customer data is not comingled. In addition, this architecture reduces risk associated with infrastructure outages, improves system scalability and security, and allows for flexibility in deployment location. We believe this architecture is the best solution for the large global enterprises that rely on us for critical applications.

### **Business Benefits**

*Single system of record for IT.* We provide a single system of record for IT executives to track assets, activities and resources across the multiple systems and infrastructures currently in use in large enterprises. This provides executives with the ability to execute their IT strategy by quickly assessing how well their IT infrastructure is supporting business processes, analyzing business needs real-time and developing business solutions as needs evolve.

*Lower total cost of ownership.* We assume complete responsibility for our service, including application set, hosting infrastructure, maintenance, monitoring, storage, security, customer support and upgrades, all of which free customer resources. Our service only requires a browser and an Internet connection to function.

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Additionally, we manage, monitor and handle upgrades and patch deployments remotely, which can result in lower total cost of ownership to our customers compared to legacy IT management products.

*Easy to use and widely accessible.* Our suite of intuitive and easy-to-use applications provides users with a familiar experience based on business-to-consumer concepts. In addition, users with knowledge of basic software applications are able to create custom applications on our platform to solve specific business issues. Users can access our service through a web-based interface anywhere an Internet connection is available, including through mobile devices. We believe this ease of use and accessibility result in increased user adoption. This enables businesses to earn higher return on investment and makes it more likely that users perform tasks based on standard defined processes, reducing system failure.

### **Our Growth Strategy**

Our goal is to be the industry-recognized leading provider of cloud-based services to automate enterprise IT operations. Key elements of our growth strategy include:

*Expand our customer base.* We believe the global market for next-generation enterprise IT operations management is large and underserved, and we intend to continue to make investments in our business to capture increasingly larger market share. To expand our customer base we intend to invest in our direct sales force and strategic resellers as well as our data center footprint. In particular, we grew our sales and marketing team from 140 as of June 30, 2011 to 270 as of March 31, 2012.

*Further penetrate our existing customer base.* We intend to increase the number of subscriptions purchased by our current customers as they deploy additional core ITIL and extended IT applications, and use our platform to develop custom applications to meet business needs outside of IT. Additionally, we believe there are significant cross-sell opportunities for our separately licensed Discovery and Runbook Automation technologies.

*Expand internationally.* We have a large and growing international presence, and intend to grow our customer base in various regions. We are investing in new geographies, including investment in direct and indirect sales channels, data centers, professional services, customer support and implementation partners. As of the end of March 2012, 27% of our direct sales force was located outside North America. We plan to increase our investment in our existing international locations in order to achieve scale efficiencies in our sales and marketing efforts, in addition to adding new geographies.

*Continue to innovate and enhance our service offerings.* We have made, and will continue to make, significant investments in research and development to strengthen our existing applications, expand the number of applications on our platform and develop additional automation technologies. We typically offer multiple upgrades each year that allow our customers to benefit from ongoing innovation.

*Strengthen our customer community.* We have an enthusiastic and engaged customer community that contributes to our success through their willingness to share their ServiceNow experiences with other potential customers. Customer needs drive our development efforts. To support our customer community and encourage collaboration, we host Knowledge, our annual user conference. Participation by our customers at Knowledge has grown ten-fold, with approximately 100 attendees at our first conference in 2007 growing to approximately 1,000 attendees in 2011. We will continue to leverage our large and growing customer community to expose our existing customers to new use cases and increase awareness of our service.

*Develop our partner ecosystem.* We intend to further develop our existing partner ecosystem by establishing agreements with strategic resellers and system integrators to provide broader customer coverage, access to senior executives and solution delivery capabilities. As we expand our base of partners, we intend to grow our indirect sales team and marketing efforts to support our distribution network.

*Further promote our extensible platform.* We plan to grow investments in our platform to better enable the creation of custom applications to address specific business issues. We believe our platform is currently deployed

to address a wide variety of non-IT use cases in areas such as human resources, facilities and quality control management. We believe our platform provides substantial application development capabilities and we intend to further promote the potential of our platform as a strategy to penetrate large and growing markets.

## Our Service

Our core applications are specifically designed to automate ITIL-based processes. We also offer extended IT applications and allow customers to build custom applications designed to automate processes unique to their businesses. All of these applications run on our platform and are provided as a hosted service under a SaaS business model.

Our service includes the following applications:

### **Core ITIL Applications**

- *Incident Management* manages the process of restoring a failed service to an operational state.
- *Problem Management* manages the process of resolving the root cause of recurring service outages or issues affecting multiple users.
- *Change Management* manages the proposal and approval process for changes to be made to the IT infrastructure.
- *Release Management* assigns, manages and monitors the various tasks comprising the actual implementation or execution of a proposed change.
- *Configuration Management Database, or CMDB*, serves as the inventory repository of all hardware, software and network equipment comprising the IT infrastructure.
- *Service Catalog* displays the various goods and services an IT department makes available to the rest of the organization.
- *Knowledge Management* stores and displays “knowledge articles” or documents for use by the IT staff or broader supported employee base.
- *Service Portfolio Management* presents business services offered to the enterprise by the IT organization in consumer-oriented fashion.
- *Service Level Agreement Management* monitors and manages progress being made by IT staff on the completion of assigned tasks which have specific due dates.

### **Extended IT Applications**

- *Project and Portfolio Management* tracks and manages projects planned or being worked on by the IT staff.
- *IT Cost Management* tracks and monitors staff work time, project-related expenses and labor costs.
- *IT Asset and Contract Management* tracks the financial elements of IT infrastructure.
- *IT Governance Risk and Compliance* details applications, databases, servers, network equipment and personnel for a regulatory or compliance audit.
- *Software Development Lifecycle Management* tracks and manages new features and functions to be developed in upgrades or new software applications.
- *Field Service Management* manages the process of dispatching field based technicians and routing of field-based spare parts to a customer location.

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- *Social IT* provides users with a collaboration capability to interact with a broad set of users to enable IT self-service as well as a chat functionality for one-to-one online communication with IT staff.
- *Reporting and Business Intelligence* provides users with access to pre-built and custom reports across all applications.
- *Discovery* discovers the various hardware and software assets comprising the IT infrastructure as well as mapping the operational dependencies between those assets, and then populates and maintains that inventory in the CMDB application. Each of these processes occurs automatically.
- *Runbook Automation* is designed to automatically execute complex yet routine and repeatable projects in the datacenter, allowing organizations to automate business and IT processes that would otherwise be done manually.

### **Custom Applications**

Our customers and partners can use our platform to build applications designed to automate processes that are unique to their businesses. Some examples include human resources, facilities and quality control management.

### **Platform**

Our proprietary platform serves as the development environment for our suite of applications and custom applications, and automates workflow and integrates related business processes. Each application leverages shared platform resources to increase system automation, process integration, interface usability and data consistency.

### **Professional Services**

Customers configure their implementation of our service to accommodate their unique organizational structures and workflows as well as to integrate our service with other technologies in their environments. We provide technical training and implementation services to customers through our professional services team and through a network of certified partners. Customers may also implement our service independently or use a third party. Our professional services include customer guidance on implementation, as well as comprehensive integration and implementation projects, and can include the development of custom applications. Customers typically implement applications in phases and each phase is governed by a separate statement of work. Typical professional service engagements vary in length from a few weeks to several months depending on the scope and size of the customer initiative.

### **Customer Support**

We offer customer support from our offices in San Diego, California and London. Customers can call or email us at anytime to report issues with or ask questions regarding our service. We provide 24/7 support through phone, email, online documentation and an online forum. Our support staff is comprised of highly experienced and knowledgeable technicians that receive significant training on the deployment and maintenance of our service, as well as the operations of our data centers. There is no additional charge for customer support.

### **Technology**

We designed our cloud-based service to support large global enterprises. The architecture, design, deployment and management of our service are focused on:

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*Scalability.* Our service is designed to support concurrent user sessions within a global enterprise, processing thousands of record-producing transactions and managing multiple terabytes of data while continuing to deliver best-in-class transaction processing time.

*Availability.* Our customers are highly dependent on our service for the day-to-day operations of their IT infrastructure. Our service is designed as an “always on” solution.

*Security.* Our service hosts and manages a large quantity of highly sensitive customer data. We employ a number of technologies, policies and procedures to protect customer data. We offer data centers that have SSAE 16 or ISO 27001 attestations or equivalent attestations.

We have a standardized Java-based development environment with the majority of our software written in industry standard software programming languages. We also use Web 2.0 technologies like AJAX and HTML which give users an intuitive and familiar experience. Our hardware primarily consists of industry standard servers and network components. Our standard operating system and database are Linux and MySQL, respectively, and the system is highly portable across multiple platforms including Microsoft Windows, Microsoft SQL Server and Oracle databases.

Unlike many SaaS vendors, we operate a multi-instance architecture that provides all customers with dedicated applications and databases. Most customers run on shared infrastructure servers while larger customers may run on dedicated servers. This architecture reduces risk associated with infrastructure outages, improves system scalability and security, and allows for flexibility in deployment location. We are also investing in enhancements to our cloud architecture, which are designed to provide all our customers with increased data reliability and availability.

We offer our customers the option to purchase dedicated hardware in our data centers. In addition, our multi-instance architecture gives us the added flexibility to deploy our applications on-premises at a customer data center in order to support regulatory or security requirements. When our software is installed at the customer site, we define the hardware requirements that the customer must install and manage. We then remotely install and maintain the applications in a similar way to how we manage customer instances deployed in our own managed data centers. A small percentage of our customers run an on-premises solution.

### **Sales and Marketing**

We sell our product and services through direct field sales and indirect channel sales. Our primary sales channel in North America is direct sales, and we also partner with strategic resellers and system integrators. For international markets outside of the United Kingdom and Germany we have historically partnered with strategic resellers. In the past year we have made significant investments in direct sales in many markets.

Our marketing efforts and lead generation activities consist primarily of customer referrals, Internet advertising, trade shows and industry events and press releases. We also host Knowledge conferences and webinars where customers both participate in and present a variety of programs designed to help accelerate marketing success with our service and platform.

As of March 31, 2012 we had 270 employees in sales and marketing.

### **Customers**

We primarily market our service to large enterprises, which we define as companies with over \$750 million in revenues and a minimum of 200 IT employees, and public sector organizations. We have proven scalability supporting large enterprise-wide deployments. As of March 31, 2012, we had 1,074 customers that operate in a

wide variety of industries, including financial services, consumer products, IT services, health care and technology. Representative customers during 2011 included:

2e2	Dimension Data	Kimberly-Clark
Advanced Micro Devices	Ellucian	Ohio State University Medical Center
Allina Health	Flextronics	Orange Business Services
Barclays	Health Partners	Philip Morris International
CompuCom	JT International	Qualcomm
Deutsche Bank	Johnson & Johnson Services	Shaw Industries

## Case Studies

The following actual examples demonstrate how customers have benefitted from our service and expertise.

### ***Global IT Outsourcing Company—Platform Modernization***

**Problem:** A multi-billion dollar global IT services outsourcer who focuses on improving IT process control and maturity for clients struggled with a number of legacy, on-premises solutions utilized to manage the delivery of contracted services to their customers. These systems were built on older technology that limited the customer's ability to deliver services to their customers in a timely and cost effective manner and grow into additional service offerings which could not be processed in their legacy systems without a large development investment.

**Solution and benefits:** Beginning in August 2008, the customer deployed our service as their enterprise platform to automate a suite of integrated IT services to their customers with the following results:

- Decreased customer implementation time by 33%, significantly enhancing the customer relationship;
- Expanded functional capability, allowing growth into additional service offerings; and
- Decreased operational support costs by 22% over a two year period.

### ***International Electronic Manufacturing and Servicing Company—Platform Consolidation***

**Problem:** A multi-billion dollar, international electronic manufacturing and servicing company had recently more than doubled the size of its business through a major acquisition and struggled with multiple systems used to support various IT functions around the globe. These disparate systems were expensive to maintain, limited the customer's ability to provide global support for enterprise systems and lacked an ability to provide operational visibility to senior management.

**Solution and benefits:** Beginning in July 2009, the customer deployed our service as a strategic platform to consolidate its global operations onto a single system of record and a unifying set of business processes in order to enable global coordination of resources and efforts. The system was deployed in 7 languages in all countries of corporate operation in just six months with the following results:

- Expanded the scope of enterprise systems supported by corporate IT by 20% with no increase in personnel resources;
- Decreased mean time to repair by 22% for business critical outages and 86% for Global Helpdesk;
- Increased mean time between failures by 13% for business critical outages;
- ITIL standard processes for Problem and Change management introduced; and
- Recognized more than \$1 million in operational expense savings.

### ***Financial Services Company—Transformation from Reactive to Proactive IT***

**Problem:** A firm specializing in providing products and services to the financial services industry wanted to transition from a reactive, task-based organization to one which was more service-oriented and capable of



providing better levels of service to the business. In order to do so, they needed to transition from a basic ticketing system to a highly automated IT service management solution.

*Solution and benefits:* Beginning in October 2010, the customer implemented our service around the ability for employees to request goods and services from the IT department and have them delivered in a highly automated fashion with the following results:

- Significantly reduced the complexity involved in requesting goods and service from the IT department;
- Reduced the number of calls to the IT department by 25% through the proactive dissemination of order status information; and
- Was able to reallocate 15% of the IT service staff to more strategic projects through improvements in employee efficiency.

#### ***International Scientific Research Organization—Custom Applications for Automated Visitor Services***

*Problem:* An international scientific research organization with more than 2,400 staff struggled to manage the efficient processing of the numerous requests generated by the more than 10,000 annual visitors to its vast, city-like campus. These requests spanned a range of diverse services offered by the organization including security access, logistics, transport, hotel rooms, experimental facilities, finance, human resources, safety and information technology.

*Solution and benefits:* Beginning in September 2009, the customer implemented a range of pre-packaged and custom-developed applications deployed on our platform with a service request portal front-end designed to provide visiting scientists with a full view of business services offered by various departments within the organization with the following results:

- Established a business service catalog comprising several hundred services described with related request items which are automatically routed to the support groups responsible for delivery and fulfillment, significantly reducing the time spent by the scientists searching for where and how to report incidents or requests.
- Processed 100,000 service requests in a one year period. Managing an annual growth of over 10% of the labs activities without increasing staff and budgets was only possible with the introduction of a service management framework powered by our platform.

#### **Data Center Operations**

We currently run our service from sixteen data centers around the world, including the United States, Canada, the United Kingdom, the Netherlands, Switzerland and Australia. We are transitioning from a managed service hosting model, where a third party manages many aspects of the operations, to a co-location model, where we will have more direct control over the infrastructure and its operation. Upon completion of the current enhancements we are making to our cloud infrastructure, which are scheduled to be completed by the end of 2012, we expect to have twelve data centers globally, two in each serving region operating in a mirrored configuration to provide high availability. For our U.S. federal government customers we are in the process of establishing data centers that are compliant with the Federal Information Security Management Act. The number of data centers we operate will continue to change with new business opportunities.

#### **Research and Development**

Our ability to compete depends in large part on our continuous commitment to research and development and our ability to timely introduce new products, technologies, features and functionality. Our research and development organization is responsible for the design, development, testing and certification of our products

and services. Our efforts are focused on developing new products and core technologies and further enhancing the functionality, reliability, performance and flexibility of existing solutions. We focus our efforts on anticipating customer demand in bringing new products and new versions of existing products to market quickly in order to remain competitive in the marketplace.

As of March 31, 2012, we had 116 employees in our research and development group. Our research and development expenses were \$2.4 million, \$7.2 million and \$7.0 million in fiscal 2009, 2010 and 2011, respectively, \$2.8 million and \$7.0 million in the six months ended December 31, 2010 and 2011, respectively, and \$1.9 million and \$6.0 million in the three months ended March 31, 2011 and 2012, respectively.

### **Competition**

The market for enterprise IT management solutions is fragmented, rapidly evolving and highly competitive. We face competition from in-house solutions, large integrated systems vendors and smaller companies with point solutions. Our competitors vary in size and in the breadth and scope of the products and services offered. Our primary competitors include BMC Software, Inc., CA, Inc., Hewlett-Packard Company and International Business Machines Corporation, all of which can bundle competing products and services with other software offerings, or offer them at a low price as part of a larger sale. With the introduction of new technologies, evolution of our product offerings and new market entrants, we expect competition to intensify in the future.

The principal competitive factors in our industry include total cost of ownership, product functionality, breadth of offerings, flexibility and performance. We believe that we compete favorably with our competitors on each of these factors. However, many of our primary competitors have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and significantly greater resources than we do.

### **Intellectual Property**

We rely upon a combination of copyright, trade secret and trademark laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. We have only recently begun to develop a strategy to seek patent protections for our technology. We pursue the registration of our domain names and trademarks and service marks in the United States and in certain locations outside the United States.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or obtain and use our technology to develop products and services that provide features and functionality that are similar to our service offerings. Policing unauthorized use of our technology is difficult. The laws of the countries in which we market our service may offer little or no effective protection of our proprietary technology. Our competitors could also independently develop services equivalent to ours, and our intellectual property rights may not be broad enough for us to prevent competitors from doing so. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it, which would significantly harm our business.

We expect that we and others in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of products and services overlaps. Our competitors could make a claim of infringement against us with respect to our service and underlying technology. Third parties may currently have, or may eventually be issued, patents upon which our current solution or future technology infringe. Any of these third parties might make a claim of infringement against us at any time.

### **Employees**

As of March 31, 2012, we had 729 full-time employees worldwide, including 270 in sales and marketing, 265 in operations, professional services, training and customer support, 116 in research and development and 78

in general and administrative roles. None of our U.S. employees is represented by a labor union with respect to his or her employment. Employees in certain European countries have the benefits of collective bargaining arrangements at the national level. We have not experienced any work stoppages.

#### **Facilities**

Our corporate headquarters are located in San Diego, California. We also maintain offices in multiple locations in the United States and internationally, including San Jose, Seattle, London, Amsterdam and Sydney. We are currently seeking additional space in San Jose, London and Amsterdam as needed to satisfy our growth.

#### **Legal Proceedings**

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows.

## MANAGEMENT

### Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors as of March 31, 2012:

<u>Name</u>	<u>Age</u>	<u>Position</u>
<b>Executive Officers:</b>		
Frank Slootman	53	President, Chief Executive Officer and Director
Frederic B. Luddy	57	Chief Product Officer and Director
Michael P. Scarpelli	45	Chief Financial Officer
David L. Schneider	43	Senior Vice President of Worldwide Sales and Services
Arne Josefsberg	54	Chief Technology Officer
Daniel R. McGee	52	Senior Vice President of Engineering
<b>Directors:</b>		
Paul V. Barber <sup>(2)</sup>	50	Chairman of the Board of Directors
Ronald E.F. Codd <sup>(1)(3)</sup>	56	Director
Douglas M. Leone <sup>(2)</sup>	54	Director
Jeffrey A. Miller <sup>(1)(2)</sup>	61	Director
Charles E. Noell, III <sup>(3)</sup>	60	Director
William L. Strauss <sup>(1)(3)</sup>	53	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Governance Committee.

### *Executive Officers*

*Frank Slootman* has served as our President and Chief Executive Officer, and as a director, since May 2011. Mr. Slootman served as a venture partner with Greylock Partners, a venture capital firm from January 2011 to April 2011, and served as an advisor to EMC Corporation, an information technology company, from January 2011 to February 2012. From July 2009 to January 2011, Mr. Slootman served as President of the Backup Recovery Systems Division at EMC. From July 2003 to July 2009, Mr. Slootman served as President and Chief Executive Officer of Data Domain, Inc., an electronic storage solution company, which was acquired by EMC in 2009. Prior to joining Data Domain, Mr. Slootman served as an executive at Borland Software Corporation from June 2000 to June 2003, most recently as Senior Vice President of Products. From March 1993 to June 2000, Mr. Slootman held management positions for two enterprise software divisions of Compuware Corporation. Mr. Slootman holds undergraduate and graduate degrees in Economics from the Netherlands School of Economics, Erasmus University Rotterdam. Our board believes that Mr. Slootman's business expertise, including his prior executive level leadership, gives him the operational expertise, breadth of knowledge and valuable understanding of our industry which qualifies him to serve as a member of our board of directors.

*Frederic B. Luddy* has served as our Chief Product Officer since May 2011. Mr. Luddy founded ServiceNow in June 2004 and served as our President and Chief Executive Officer from that time until May 2011 and as a director since June 2004. From April 1990 to October 2003, Mr. Luddy served as Chief Technology Officer of Peregrine Systems, Inc., an enterprise software company that filed for protection under Chapter 11 of the United States Bankruptcy Code in September 2002. Prior to joining Peregrine Systems, Mr. Luddy founded Enterprise Software Associates, a software company, and was employed by Boole and Babbage, Inc., a software

company, and the Amdahl Corporation, an information technology company. Our board believes Mr. Luddy's experience as the founder of ServiceNow, his knowledge of software and the software industry, as well his executive level experience and software and hardware development expertise give him the breadth of knowledge and leadership capabilities which qualify him to serve as a member of our board of directors.

*Michael P. Scarpelli* has served as our Chief Financial Officer since August 2011. From July 2009 to August 2011, Mr. Scarpelli served as Senior Vice President of Finance & Business Operations of the Backup Recovery Systems Division at EMC. From September 2006 to July 2009, Mr. Scarpelli served as Chief Financial Officer of Data Domain. Prior to joining Data Domain, Mr. Scarpelli served as Executive Vice President and Chief Financial Officer for Lexar Media, Inc., a flash memory manufacturer, from January 2006 until Lexar was acquired by Micron Technology, Inc. in August 2006. From January 2002 to December 2005, Mr. Scarpelli held senior positions at HPL Technologies, Inc., a provider of yield management software and test chip solutions, most recently as Senior Vice President and Chief Financial Officer. Mr. Scarpelli began his career at PricewaterhouseCoopers LLP from May 1989 to December 2001. Mr. Scarpelli holds a B.A. in Economics from the University of Western Ontario.

*David L. Schneider* has served as our Senior Vice President of Worldwide Sales and Services since June 2011. From July 2009 to June 2011, Mr. Schneider served as Senior Vice President of Worldwide Sales of the backup recovery systems division of EMC. From January 2004 to July 2009, Mr. Schneider held senior positions at Data Domain, most recently Senior Vice President of Worldwide Sales. Prior to joining Data Domain, Mr. Schneider served as Vice President of Alliances, Channel and OEM Sales for Borland Software from January 2003 to December 2003. From May 2002 to January 2003, Mr. Schneider served as Vice President of Western United States Sales for TogetherSoft Corporation (later acquired by Borland Software). From January 1999 to May 2002, Mr. Schneider was Western Regional Manager at Iona Technologies, Inc., an infrastructure software company. Mr. Schneider holds a B.A. in Political Science from the University of California, Irvine.

*Arne Josefsberg* has served as our Chief Technology Officer since September 2011. Prior to joining us, Mr. Josefsberg held various positions with Microsoft Corporation over the last 25 years, most recently as general manager of Windows Azure Infrastructure from November 2009 to September 2011, and as General Manager of Infrastructure Services, Global Foundation Services from March 2006 to October 2009. Mr. Josefsberg holds an M.S. in Physics from the Lund Institute of Technology in Sweden.

*Daniel R. McGee* has served as our Senior Vice President of Engineering since August 2011. From July 2009 to August 2011, Mr. McGee served as Senior Vice President of Engineering and Support of the Backup Recovery Systems Division of EMC. From February 2006 to July 2009, Mr. McGee held senior positions at Data Domain, most recently Senior Vice President of Engineering and Support. Prior to joining Data Domain, Mr. McGee served as Vice President of Engineering at Aventail Corporation from March 2004 to February 2006 and held various positions at Pinnacle Systems, Inc. from August 1999 to March 2004 including the joint position of Director of Network Solutions and General Manager of Distributed Broadcast Solutions. Mr. McGee holds a B.S. in Electrical Engineering & Computer Science from Oregon State University and an M.S. in Engineering Management from Stanford University.

#### ***Directors***

*Paul V. Barber* has served on our board of directors since June 2005. In November 1998, Mr. Barber joined JMI Equity, a venture capital firm, where he now serves as a Managing General Partner. Mr. Barber also serves on the boards of directors of several private companies. From 1990 to 1998, Mr. Barber was the Managing Director and Head of the Software Investment Banking Practice at Alex. Brown & Sons. Mr. Barber received an A.B. in Economics from Stanford University and an M.B.A. from the Harvard Business School. Our board believes that Mr. Barber's management experience and his service on other boards of directors in the information technology industry, including his experience in finance, give him the breadth of knowledge and valuable understanding of our industry, which qualify him to serve as a member of our board of directors.

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*Ronald E. F. Codd* has served on our board of directors since February 2012. Mr. Codd has been an independent business consultant since April 2002. From January 1999 to April 2002, Mr. Codd served as President, Chief Executive Officer and a director of Momentum Business Applications, Inc., an enterprise software company. From September 1991 to December 1998, Mr. Codd served as Senior Vice President of Finance and Administration and Chief Financial Officer of PeopleSoft, Inc. Mr. Codd has served as a member of the board of directors of Rocket Fuel, Inc. since February 2012. Mr. Codd has served on numerous information technology boards including most recently DemandTec, Inc., Interwoven, Inc. and Data Domain. Mr. Codd holds a B.S. in Accounting from the University of California, Berkeley and an M.M. in Finance and M.I.S. from the Kellogg Graduate School of Management at Northwestern University. Mr. Codd is also a member of the adjunct faculty at Golden Gate University in San Francisco, California. Our board believes that Mr. Codd's management experience and his software industry experience, including his experience in finance, give him the breadth of knowledge and valuable understanding of our industry which qualify him to serve as a member of our board of directors.

*Douglas M. Leone* has served on our board of directors since November 2009. Mr. Leone has been associated with Sequoia Capital, L.P., a venture capital firm, since July 1988 and has been a General Partner since 1993. Prior to joining Sequoia Capital, Mr. Leone held sales and sales management positions at Sun Microsystems, Inc., Hewlett-Packard Company and Prime Computer, Inc. Mr. Leone has served on the board of directors of Aruba Networks, Inc. since 2002. Mr. Leone holds a B.S. in Mechanical Engineering from Cornell University, an M.S. in industrial engineering from Columbia University and an M.S. in Management from the Massachusetts Institute of Technology. Our board believes that Mr. Leone's investment experience in the Internet and software industries, as well as his background in sales and sales management, provide valuable insight regarding our business and qualify him to serve as a member of our board of directors.

*Jeffrey A. Miller* has served on our board of directors since February 2011. Mr. Miller has served as President and Chief Executive Officer of JAMM Ventures, a consulting and venture capital firm, since January 2002. From January 2002 to March 2006, Mr. Miller also served as a Venture Partner with Redpoint Ventures. Mr. Miller previously served on the board of directors of Data Domain from October 2006 to July 2009 and McAfee, Inc. from June 2008 to February 2011. Mr. Miller holds a B.S. in Electrical Engineering and Computer Science and an M.B.A. from Santa Clara University. Our board believes that Mr. Miller's consulting and investment experience and his service on the boards of directors of other companies in the information technology industry give him the appropriate set of skills which qualify him to serve as a member of our board of directors.

*Charles E. Noell, III* has served on our board of directors since February 2012. From January 1992 through December 2010, Mr. Noell served as President and Chief Executive Officer of JMI Services, Inc. and since December 2010 has served as President of JMI Services, LLC, each a family office. Mr. Noell co-founded JMI Equity, a venture capital firm, in 1992, has served as a General Partner since its founding and has served as a Venture Partner since 2007. Since March 1996, Mr. Noell has served as a member of the Executive Committee of Padres, Inc., the general partner of Padres L.P., the owner of the San Diego Padres Major League Baseball franchise. Mr. Noell holds a B.A. in History from the University of North Carolina at Chapel Hill and an M.B.A. from Harvard University. Our board believes that Mr. Noell's investment experience in the information technology industry gives him the breadth of knowledge and understanding of our industry which qualify him to serve as a member of our board of directors.

*William L. Strauss* has served on our board of directors since February 2011. Since September 2011, Mr. Strauss has served as Chief Executive Officer and director of Shoedazzle.com, Inc., an online fashion company. From November 1999 to September 2011, Mr. Strauss served as Chief Executive Officer and a director of Provide Commerce, Inc., an e-commerce marketplace of websites, which was acquired by Liberty Media Corporation in 2006. Mr. Strauss holds a B.A. in Accounting from Syracuse University. Our board believes that Mr. Strauss' management experience gives him the appropriate set of skills which qualify him to serve as a member of our board of directors.

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Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

### **Board of Directors**

The rules of the New York Stock Exchange require that a majority of the members of our board of directors be independent within specified periods following the closing of this offering. Our board of directors has determined that six of our directors are independent as determined under the rules of the New York Stock Exchange: Messrs. Barber, Codd, Leone, Miller, Noell and Strauss.

Pursuant to a voting agreement, Messrs. Barber, Leone, Luddy and Noell were appointed to our board of directors by certain of our stockholders. The voting agreement will terminate upon the closing of this offering. The current members of our board of directors will continue to serve as directors until their resignation or until their successors are duly elected.

Upon the closing of this offering, our restated certificate of incorporation will divide our board of directors into three classes, with staggered three-year terms:

- Class I directors, whose initial term will expire at the annual meeting of stockholders to be held in 2013;
- Class II directors, whose initial term will expire at the annual meeting of stockholders to be held in 2014; and
- Class III directors, whose initial term will expire at the annual meeting of stockholders to be held in 2015.

At each annual meeting of stockholders after the initial classification, the successors to directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following election. Upon the closing of this offering, the Class I directors will consist of Messrs. Barber, Codd and Sloodman; the Class II directors will consist of Messrs. Noell and Strauss; and the Class III directors will consist of Messrs. Leone, Luddy and Miller. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

In addition, under our restated certificate of incorporation and restated bylaws that will be effective upon the closing of this offering, (1) our board of directors may set the authorized number of directors and (2) only our board of directors may fill vacancies on our board of directors. Any director appointed to fill a vacancy shall serve for the remaining term of the directorship that would have been served by the director he or she replaced. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors.

The classification of our board of directors and provisions described above may have the effect of delaying or preventing changes in our control or management. See “Description of Capital Stock—Anti-Takeover Provisions—Restated Certificate of Incorporation and Restated Bylaw Provisions.”

### **Board Leadership Structure**

Our board of directors has an independent chairman, Mr. Barber. We believe that separation of the positions of chairman and chief executive officer reinforces the independence of our board of directors in its oversight of our business and affairs. In addition, we believe that having an independent board chairman creates an environment that is more conducive to objective evaluation and oversight of management’s performance, increasing management accountability and improving the ability of our board of directors to monitor whether

management's actions are in the best interests of our company and stockholders. As a result, we believe that having an independent board chairman enhances the effectiveness of the board of directors as a whole.

### **Role of the Board in Risk Oversight**

One of the key functions of our board of directors is informed oversight of our risk management process. Our board of directors does not have a standing risk management committee, but rather administers this oversight function directly as a whole, as well as through various standing committees of our board of directors that address risks inherent in their respective areas of oversight. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure and our Audit Committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management are undertaken. The Audit Committee also monitors compliance with legal and regulatory requirements. Our Compensation Committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

### **Board Committees**

Our board of directors has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee, each of which has the composition and responsibilities described below as of the closing of this offering. Members serve on these committees until their resignations or until otherwise determined by our board of directors.

#### ***Audit Committee***

Our Audit Committee comprises Mr. Codd, who is the chair of the Audit Committee, and Messrs. Miller and Strauss. The composition of our Audit Committee meets the requirements for independence under the current New York Stock Exchange and SEC rules and regulations. Each member of our Audit Committee is financially literate. In addition, our board of directors has determined that Mr. Codd is an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K promulgated under the Securities Act. The designation does not impose on Mr. Codd any duties, obligations or liabilities that are greater than are generally imposed on members of our Audit Committee and our board of directors. All audit services to be provided to us and all permissible non-audit services to be provided to us by our independent registered public accounting firm will be approved in advance by our Audit Committee. Our board of directors will adopt a revised charter for our Audit Committee prior to the closing of this offering. Our Audit Committee, among other things, will:

- select a firm to serve as the independent registered public accounting firm to audit our financial statements;
- help ensure the independence of the independent registered public accounting firm;
- discuss the scope and results of the audit with the independent registered public accounting firm, and review, with management and that firm, our interim and year-end operating results;
- develop procedures for employees to anonymously submit concerns about questionable accounting or audit matters;
- consider the adequacy of our internal accounting controls and audit procedures; and
- approve or, as permitted, pre-approve all audit and non-audit services to be performed by the independent registered public accounting firm.



### ***Compensation Committee***

Our Compensation Committee comprises Mr. Miller, who is the chair of the Compensation Committee, and Messrs. Barber and Leone. The composition of our Compensation Committee meets the requirements for independence under the current New York Stock Exchange and SEC rules and regulations. Each member of this committee is a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. The purpose of our Compensation Committee is to discharge the responsibilities of our board of directors relating to compensation of our executive officers. Our board of directors will adopt a revised charter for our Compensation Committee prior to the closing of this offering. Our Compensation Committee, among other things, will:

- review and approve, or recommend that our board of directors approve, the compensation of our executive officers;
- review and recommend to our board of directors the compensation of our directors;
- review and approve the terms of any material agreements with our executive officers;
- administer our stock and equity incentive plans;
- review and make recommendations to our board of directors with respect to incentive compensation and equity plans; and
- establish and review our overall compensation philosophy.

### ***Nominating and Governance Committee***

Our Nominating and Governance Committee comprises Mr. Strauss, who is the chair of the Nominating and Governance Committee, Mr. Codd and Mr. Noell. The composition of our Nominating and Governance Committee meets the requirements for independence under the current New York Stock Exchange and SEC rules and regulations. We anticipate that our board of directors will adopt a charter for our Nominating and Governance Committee prior to the closing of this offering. Our Nominating and Governance Committee, among other things, will:

- identify, evaluate and recommend nominees to our board of directors and committees of our board of directors;
- conduct searches for appropriate directors;
- evaluate the performance of our board of directors;
- consider and make recommendations to our board of directors regarding the composition of our board of directors and its committees;
- review related party transactions and proposed waivers of the code of conduct;
- review developments in corporate governance practices; and
- evaluate the adequacy of our corporate governance practices and reporting.

We intend to post the charters of our Audit, Compensation and Nominating and Governance Committees, and any amendments that may be adopted from time to time, on our website.

### **Compensation Committee Interlocks and Insider Participation**

No member of our Compensation Committee is an executive officer or employee of ours. None of our officers currently serves, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more officers serving as a member of our board of directors

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or Compensation Committee. We have had a compensation committee since October 2010. Prior to establishing the Compensation Committee, our full board of directors made decisions relating to compensation of our officers.

**Code of Business Conduct and Ethics**

We anticipate that our board of directors will adopt a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions. We intend to post the code of business conduct and ethics, and any amendments that may be adopted from time to time, on our website.

**Director Compensation**

The following table sets forth information concerning the compensation that we paid or awarded during fiscal 2011 and the six months ended December 31, 2011 to each of our non-employee directors:

<u>Name</u>	<u>Period</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Option Awards (\$)<sup>(1)</sup></u>	<u>Total (\$)</u>
Paul V. Barber	*	—	—	—
	2011	—	—	—
Andrew M. Leitch <sup>(2)</sup>	*	20,000	—	20,000
	2011	20,000	165,140	185,140
Douglas M. Leone	*	—	—	—
	2011	—	—	—
Jeffrey A. Miller	*	—	—	—
	2011	—	278,980	278,980
William L. Strauss	*	—	—	—
	2011	—	278,980	278,980

\* Effective February 3, 2012, we changed our fiscal year-end from June 30 to December 31. Amounts in this row are for the six months ended December 31, 2011.

(1) Amounts listed represent the aggregate fair value amount computed as of the grant date of each option and award during fiscal year 2011 in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 12 to our consolidated financial statements. As required by SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Our directors will only realize compensation to the extent the trading price of our common stock is greater than the exercise price of such stock options.

(2) Mr. Leitch resigned from our board of directors in February 2012.

Messrs. Codd and Noell were elected to our board of directors in February 2012 and did not receive any compensation for fiscal 2011 or the six months ended December 31, 2011.

For fiscal 2011 and the six months ended December 31, 2011, our board of directors adopted a compensation policy for our non-employee directors who are not affiliated with any holder of more than 10% of our common stock. The policy provides for an annual board service retainer of \$20,000 to the director serving as the chair of the Audit Committee, payable upon the appointment as chairman and annually thereafter. In addition, any newly appointed eligible non-employee director is entitled to receive a nonqualified stock option for 200,000 shares, which vests in equal monthly installments over four years.

In April 2012, we adopted a new non-employee director compensation policy that will be effective following the closing of this offering. Under the new policy, each non-employee director will receive a cash retainer of \$25,000 per year and an annual stock option grant of 50,000 shares, vesting one year from the date of grant. In addition, any non-employee director acting as the chairperson of the Audit Committee, Compensation Committee or Nominating and Governance Committee will receive an annual cash retainer of \$20,000, \$10,000

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and \$5,000, respectively. Any non-employee director serving as a member of the Audit Committee, Compensation Committee or Nominating and Governance Committee, other than the chairperson, will receive an annual cash retainer of \$5,000, \$3,750 and \$2,500, respectively. Further, any person first elected or appointed as a non-employee member of our board of directors following the closing of this offering will receive a stock option grant of 100,000 shares, vesting annually over three years. No director shall be entitled to per-meeting fees.

All directors are also entitled to reimbursement for reasonable travel expenses incurred in attending meetings of our board of directors and committees of the board of directors.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Overview

The following discussion and analysis of compensation arrangements of our executive officers should be read together with the compensation tables and related disclosures set forth below. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. The actual amount and form of compensation and the compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

This section discusses the principles underlying our executive compensation policies and decisions and the most important factors relevant to an analysis of these policies and decisions. In addition, we explain how and why our board of directors and the Compensation Committee of our board of directors arrived at specific compensation policies and decisions involving our executive officers during fiscal 2011 and the six months ended December 31, 2011.

This Compensation Discussion and Analysis provides information about the material components of our executive compensation program for the following executive officers, to whom we refer collectively in this prospectus as the named executive officers.

- Frank Sloodman, our President and Chief Executive Officer, or CEO;
- Michael P. Scarpelli, our Chief Financial Officer;
- Frederic B. Luddy, our Chief Product Officer;
- Arne Josefsberg, our Chief Technology Officer;
- David L. Schneider, our Senior Vice President of Worldwide Sales and Services;
- Daniel R. McGee, our Senior Vice President of Engineering; and
- Andrew J. Chedrick, our former Chief Financial Officer.

We hired Mr. Sloodman as our President and CEO in May 2011. At that time, Mr. Luddy, our founder, who had been serving as our President and CEO, was appointed our Chief Product Officer. We hired Mr. Schneider as our Senior Vice President of Sales in June 2011.

We hired Mr. Scarpelli as our Chief Financial Officer in August 2011. At that time, Mr. Chedrick, who had been serving as our Chief Financial Officer, was appointed our Vice President, Finance. Mr. Chedrick resigned his position as an employee of our company effective January 2012.

We hired Mr. McGee as our Senior Vice President, Engineering in August 2011. We hired Mr. Josefsberg as our Chief Technology Officer in September 2011. To better reflect the scope of their roles and responsibilities, Mr. Schneider's title was subsequently changed to Senior Vice President of Worldwide Sales and Services and Mr. McGee's title was subsequently changed to Senior Vice President of Engineering.

### ***Executive Compensation Philosophy and Objectives***

We believe in providing a competitive total compensation package to our executive officers through a combination of base salary, performance-based bonuses, equity incentive awards and broad-based welfare and health benefit plans. Our executive compensation program is designed to achieve the following objectives:

- attract, motivate and retain executive officers of outstanding ability and potential;
- reward the achievement of key performance measures; and
- ensure that executive compensation is meaningfully related to the creation of stockholder value.

We believe that our executive compensation program should include short-term and long-term components, including cash and equity incentive compensation, and should reward consistent performance that meets or exceeds expectations. We evaluate both performance and compensation to make sure that the compensation provided to our executive officers remains competitive relative to compensation paid by companies of similar size operating in the software services industry, taking into account our relative performance and our own strategic objectives.

### ***Executive Compensation Design***

Our current executive compensation program reflects our stage of development as a privately-held company. Accordingly, the compensation of our executive officers, including the named executive officers, has consisted of base salary, quarterly and annual cash bonus opportunities, equity compensation in the form of stock options and certain employee welfare and health benefits.

The key component of our executive compensation program has been equity awards in the form of options to purchase shares of our common stock. As a privately-held company, we have emphasized the use of equity to provide incentives for our executive officers to focus on the growth of our overall enterprise value and, correspondingly, to create value for our stockholders. Until March 2012, we used stock options as our sole equity award vehicle for all of our employees. In March 2012, we issued restricted stock units, or RSUs, for the first time. We believe that stock options and RSUs offer our executive officers, including the named executive officers, a valuable long-term incentive that aligns their interests with the long-term interests of our stockholders. Going forward, as we deem appropriate, we may introduce other forms of stock-based compensation awards into our executive compensation program to offer our executive officers additional types of long-term equity incentives that further this objective.

We also offer cash compensation in the form of base salaries and quarterly and annual cash bonus opportunities. Typically, we have structured our cash bonus opportunities to focus on the achievement of specific short-term financial objectives that will further our longer-term growth objectives.

We have not adopted any formal policies or guidelines for allocating compensation between current and long-term compensation, between cash and non-cash compensation, or among different forms of non-cash compensation. Instead, our board of directors and, since October 2010, the Compensation Committee, have reviewed each component of executive compensation separately and also take into consideration the value of each executive officer's compensation package as a whole and its relative size in comparison to our other executive officers.

As we transition from a privately-held company to a publicly-traded company, we will evaluate our philosophy and compensation programs as circumstances require. At a minimum, we will review executive compensation annually. As part of this review process, we expect to apply our values and the objectives outlined above, while considering the compensation levels needed to ensure our executive compensation program remains competitive. We will also review whether we are meeting our retention objectives and the potential cost of replacing a key employee.

### ***Executive Compensation Process***

*Role of the Compensation Committee.* The Compensation Committee, which is currently composed entirely of independent directors, was established in October 2010. Prior to establishing the Compensation Committee, our board of directors made all decisions concerning the compensation of our executive officers.

Upon establishing the Compensation Committee, our board of directors delegated to it responsibility for reviewing and approving the compensation of our executive officers. The role of the Compensation Committee was to oversee our compensation and benefit plans and policies, to administer our equity incentive plans, and to annually review and approve or recommend to the board of directors for approval of the compensation decisions for our executive officers, including the named executive officers.

Historically, the board of directors or the Compensation Committee, as applicable, conducted a review of the aggregate level of our executive compensation, as well as the mix of elements used to compensate our executive officers. As a privately-held company, we based this review primarily on the experience of the non-employee members of our Compensation Committee and board of directors that are affiliated with venture investment firms and who sit on the boards of directors of other companies in the software and information technology sectors.

*Role of Executive Officers.* Historically, our CEO evaluated the performance of our executive officers (other than his own performance) on an annual basis and made recommendations to our board of directors or the Compensation Committee, as applicable, with respect to base salary adjustments, target bonus opportunities, actual bonus payments and equity incentive awards. Our CEO intends to continue this practice going forward.

While the Compensation Committee considered these recommendations in its deliberations, it exercised its own independent judgment in approving the executive compensation of our executive officers.

*Role of Compensation Consultant.* In November 2010, the Compensation Committee retained Compensia, Inc., or Compensia, a national compensation consulting firm, to assist it in developing our overall executive compensation program. Among other things, the Compensation Committee directed Compensia to provide its analysis of whether our existing compensation strategy and practices were consistent with our compensation objectives and to assist it in modifying our compensation program for executive officers to better achieve our objectives. As part of its duties, Compensia has performed the following projects for the Compensation Committee:

- assisted in the development of a compensation peer group;
- provided compensation data for similarly-situated executive officers at our peer group companies; and
- updated the Compensation Committee on emerging trends and best practices in the area of executive compensation.

Compensia does not provide any other services to us.

### ***Competitive Positioning***

Prior to the Compensation Committee's engagement of Compensia, our board of directors used publicly-available data relating to the compensation practices and policies of other companies within and outside our industry as a reference source in determining executive compensation. Typically, our board of directors applied its subjective judgment to make compensation decisions and did not formally benchmark our executive compensation against any particular group of companies or use a formula to set our executive officers' compensation in relation to this data.

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In connection with its engagement, the Compensation Committee directed Compensia to assist it in the development of a compensation peer group. Compensia provided the Compensation Committee with a recommended list of peer companies for its consideration. This recommended list consisted of companies with a SaaS business model that Compensia and the Compensation Committee determined compete with us for talent, are in the same geographical area and have a similar number of employees.

In February 2011, the Compensation Committee reviewed the following companies as the peer group to be used as a reference source in its executive compensation deliberations:

Art Technology Group Inc.	Constant Contact, Inc.
DemandTec, Inc.	Guidance Software, Inc.
IntraLinks Holdings, Inc.	Kenexa Corporation
LivePerson, Inc.	LogMeIn, Inc.
NaviSite, Inc.	NetSuite Inc.
OpenTable, Inc.	RealPage, Inc.
RightNow Technologies, Inc.	SuccessFactors, Inc.
Support.com, Inc.	Vocus, Inc.

Following the development of the peer group, Compensia provided the Compensation Committee and our CEO data and analysis of the executive compensation practices of the companies included in the peer group. As the Compensation Committee and CEO negotiated the employment agreements of our named executive officers in 2011, the information from Compensia was considered as part of the overall mix of information available to the Compensation Committee and our CEO. However, the elements of executive compensation, and the amounts of compensation agreed to, for each named executive officer were determined as a result of arms-length negotiations with the executive officers, and not as a result of any benchmarking against the peer group. In the future, the Compensation Committee may elect to formally benchmark the compensation of the named executive officers against a peer group of companies, and intends to review the peer group at least annually and make adjustments to its composition as necessary.

### ***Elements of Executive Compensation***

The compensation program for our executive officers consists of three principal components:

- base salary;
- performance-based and discretionary bonuses; and
- equity incentive compensation.

**Base Salary.** The initial base salaries of our executive officers have been established through arm's-length negotiation at the time the individual was hired, taking into account his or her qualifications, experience, the scope of his or her responsibilities, the competitive market compensation paid by other companies for similar positions within the industry and the base salaries of our other executive officers.

Thereafter, the base salaries of our executive officers, including the named executive officers, are reviewed annually, typically in connection with our annual performance review process, and adjusted from time to time to realign them with market levels after taking into account individual responsibilities, performance and experience. In making decisions regarding base salary adjustments, we may also draw upon the experience of members of our board of directors with other companies. The Compensation Committee has not previously applied specific formulas to determine base salary adjustments, although it may set future adjustments as a percentage of an executive officer's then-current base salary.

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The salaries paid to the named executive officers who were with our company in fiscal 2010 and 2011 were as follows:

<u>Named Executive Officer</u>	<u>Fiscal 2010 Salary</u>	<u>Fiscal 2011 Salary</u>
Frederic B. Luddy	\$ 330,000	\$ 330,000
Andrew J. Chedrick	255,000	255,000

In May 2011, we hired Mr. Sloodman as our President and Chief Executive Officer. At that time, our board of directors set his annual base salary at \$300,000. This amount was determined as part of the arm's-length negotiation of the terms of Mr. Sloodman's employment, which was conducted on our behalf by members of the Compensation Committee and subsequently approved by our board of directors.

In June 2011, we hired Mr. Schneider as our Senior Vice President of Sales. At that time, the Compensation Committee set his annual base salary at \$250,000. This amount was determined as part of the arm's-length negotiation of the terms of Mr. Schneider's employment, which was conducted on our behalf by our CEO and subsequently approved by the Compensation Committee.

In July 2011, the board of directors, based on the recommendation of the Compensation Committee, approved an adjustment to the base salary of Mr. Luddy from \$330,000 to \$300,000 to better reflect the scope of his role and responsibilities with our company. No changes were made to the base salaries of our CEO or Messrs. Chedrick and Schneider.

In August 2011, we hired Mr. Scarpelli as our Chief Financial Officer. At that time, the Compensation Committee set his annual base salary at \$275,000. This amount was determined as part of the arm's-length negotiation of the terms of Mr. Scarpelli's employment, which was conducted on our behalf by our CEO and subsequently approved by the Compensation Committee.

In August 2011, we hired Mr. McGee as our Senior Vice President, Engineering. At that time, the Compensation Committee set his annual base salary at \$260,000. This amount was determined as part of the arm's-length negotiation of the terms of Mr. McGee's employment, which was conducted on our behalf by our CEO and subsequently approved by the Compensation Committee.

In August 2011, we hired Mr. Josefsberg as our Chief Technology Officer. At that time, the Compensation Committees set his annual base salary at \$275,000. This amount was determined as part of the arm's-length negotiation of the terms of Mr. Josefsberg's employment, which was conducted on our behalf by our CEO and subsequently approved by the Compensation Committee.

The salaries paid to the named executive officers during the six months ended December 31, 2011 and fiscal 2011 are set forth in "—Summary Compensation Table" below.

*Cash Bonuses.* We provide our executive officers, including the named executive officers, with the opportunity to earn quarterly and annual cash bonuses to encourage the achievement of corporate and individual objectives and to reward those individuals who significantly impact our corporate results. Our board of directors and, since October 2010, the Compensation Committee determine and approve our quarterly and annual bonus decisions.

For fiscal 2011, our board of directors adopted a bonus plan providing an opportunity for certain key employees, including our executive officers, to earn quarterly and annual cash bonuses. Beginning in October 2010, this bonus plan was administered by the Compensation Committee.



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*Fiscal 2011 Quarterly Bonuses.* Under the fiscal 2011 bonus plan, the quarterly target bonus of each executive officer was equal to the product of (i) a dollar amount representing the maximum amount that the executive officer may be paid as a quarterly bonus payment, or the Target Quarterly Bonus, multiplied by (ii) a percentage representing the overall achievement of the target levels for the two performance measures for the quarter, or the Performance Goal Achievement. The Target Quarterly Bonus, the performance measures and related target levels, and the method for determining the Performance Goal Achievement for each executive officer were determined by our board of directors or the Compensation Committee, as applicable, after taking into consideration the recommendations of our CEO (for executive officers other than the CEO) at the time the performance measures and related target levels were determined for the executive officer.

Each of the named executive officers was eligible to receive a quarterly bonus. The Target Quarterly Bonus for Mr. Luddy was \$75,000, while the Target Quarterly Bonus for Mr. Chedrick was \$30,000. The Target Quarterly Bonuses for Messrs. Sloodman and Schneider were \$37,500 and \$17,123, respectively, reflecting the portion of the fourth quarter of fiscal 2011 during which they were employed by us.

For purposes of the fiscal 2011 bonus plan, our board of directors selected year-to-date consolidated revenues and year-to-date consolidated adjusted earnings before interest and taxes, or adjusted EBIT, as the two corporate performance measures that best supported our annual operating plan and enhanced long-term value creation. For purposes of the fiscal 2011 bonus plan, adjusted EBIT meant consolidated net income as calculated under generally accepted accounting principles, adjusted to eliminate interest, provision for taxes, stock-based compensation expense, financial exchange gain or loss, and expenses incurred in connection with our preparation for an initial public offering of our equity securities.

For fiscal 2011, the target levels for these two performance measures were set as follows:

<u>Quarter</u>	<u>Revenue Target Level</u>	<u>Adjusted EBIT Target Level</u>
July 1, 2010—September 30, 2010	\$15,248,000	\$ 1,045,000
October 1, 2010—December 31, 2010	33,070,000	1,505,000
January 1, 2011—March 31, 2011	54,001,000	3,897,000
April 1, 2011—June 30, 2011	79,142,000	9,097,000

Our board of directors believed that achieving the target levels for these two performance measures would require a focused and consistent effort by our executive officers throughout fiscal 2011.

The Performance Goal Achievement for each quarter was the average of the performance achievement of each of the two performance goals described above (weighted equally) for such quarter. The level of achievement of each of the two performance goals was determined as follows:

<u>If the actual company performance for the quarter was . . .</u>	<u>Then the performance goal achievement for such quarter was . . .</u>
Equal to or greater than the corresponding target performance goal measure	100%
90% or greater but less than 100% of the corresponding target performance goal measure	50%-100% <sup>(1)</sup>
Less than 90% of the target performance goal measure	0%

(1) Between these values, determined on a straight-line basis.

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The following table provides information regarding the quarterly bonus awards earned by the named executive officers who were with our company during fiscal 2011:

	Performance Period	Target Quarterly Bonus	Performance Goal Achievement	Actual Quarterly Bonus
Frederic B. Luddy	First Quarter	\$ 75,000	100%	\$ 75,000
	Second Quarter	75,000	100	75,000
	Third Quarter	75,000	100	75,000
	Fourth Quarter	75,000	100	75,000
				<u>\$ 300,000</u>
Andrew J. Chedrick	First Quarter	\$ 30,000	100%	\$ 30,000
	Second Quarter	30,000	100	30,000
	Third Quarter	30,000	100	30,000
	Fourth Quarter	30,000	100	30,000
				<u>\$ 120,000</u>
Frank Sloodman	First Quarter	\$ —	—%	\$ —
	Second Quarter	—	—	—
	Third Quarter	—	—	—
	Fourth Quarter	37,500	100	37,500
				<u>\$ 37,500</u>
David L. Schneider	First Quarter	\$ —	—%	\$ —
	Second Quarter	—	—	—
	Third Quarter	—	—	—
	Fourth Quarter	17,123	100	17,123
				<u>\$ 17,123</u>

*Fiscal 2011 Annual Bonuses.* Under the fiscal 2011 bonus plan, our executive officers were also eligible to receive an annual bonus award. The Compensation Committee established a maximum bonus pool of \$400,000. The actual amount available for payment as annual bonuses was based on a percentage of the difference between the increase in annual contract value for fiscal 2011 and the increase in annual contract value for fiscal 2010, and was \$272,490. Messrs. Luddy and Chedrick, in their sole discretion after consulting with the Compensation Committee and other members of management as to the amount available for such bonuses, determined the amount of the annual bonus award for themselves and each other executive officer based on their subjective assessment of the individual performance of each executive officer for fiscal 2011. The determinations were subject to the final approval of the Compensation Committee.

Messrs. Luddy and Chedrick were eligible to receive annual bonus awards for fiscal 2011. In approving their individual annual bonuses, the Compensation Committee took into consideration the overall performance of each executive officer for the fiscal year, including his contributions to our company's overall success. The annual bonus amounts received by Messrs. Luddy and Chedrick for fiscal 2011 were \$91,840 and \$54,670, respectively.

Since they did not join our company until late in the fiscal year, Mr. Sloodman and Mr. Schneider did not receive an annual bonus award for fiscal 2011.

*Six Months Ended December 31, 2011 Quarterly Bonuses.* In July 2011, upon the recommendation of the Compensation Committee, our board of directors adopted a new bonus plan providing an opportunity for our

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executive officers, including the named executive officers, to earn quarterly cash bonuses based on corporate performance.

The amount of the bonus for each executive officer was equal to the product of (i) such executive officer's Target Quarterly Bonus multiplied by (ii) the bonus payout percentage for the applicable quarter. The bonus payout percentage for each quarter was based on the increase in annual contract value during such quarter compared to the target increase in annual contract value during such quarter as set forth in our annual operating plan as follows.

<b>If the actual company performance for the quarter was . . .</b>	<b>Then the bonus payout percentage for such quarter was . . .</b>
Greater than the target increase in annual contract value	Greater than 100% <sup>(1)</sup>
80% or greater but less than or equal to 100% of the target increase in annual subscription value	0%-100% <sup>(2)</sup>
Less than 80% of the target increase in annual contract value	0%

(1) By an amount equal to two times the corresponding percentage of overachievement.

(2) Between these two values, determined on a straight-line basis.

In addition, the Compensation Committee had the discretion to adjust an individual bonus payout based on its evaluation of an executive officer's individual performance or other corporate financial objectives.

The Compensation Committee selected increase in annual contract value as the appropriate corporate performance measure for the bonus plan since, in its view, it was the best indicator of our successful execution of our annual operating plan as we began to aggressively grow our business, as well as a measure of our ability to build a consistent revenue stream. The Compensation Committee set the target increase in annual contract value levels for the quarters from July 1, 2011 through September 30, 2011 and October 1, 2011 through December 31, 2011 at levels that would be difficult to achieve, in order to encourage a coordinated effort by our executive officers to identify and secure a significant number of existing and new customer relationships in a volatile economic environment. As evidence of the challenging nature of the increase in annual contract value measure, the target levels established for each quarter were our most aggressive to date and represented significant increases in the target levels for this measure as reflected in our annual operating plan in previous fiscal years. As further evidence of the challenging nature of these target levels, we fully achieved the target level in only one of the two quarters.

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The following table provides information regarding the quarterly bonus awards earned by the named executive officers for the six months ended December 31, 2011.

	<b>Performance Period</b>	<b>Target Quarterly Bonus</b>	<b>Bonus Payout Percentage</b>	<b>Actual Quarterly Bonus</b>
Frank Sloomman	7/1/11-9/30/11	\$ 75,000	36%	\$ 26,978
	10/1/11-12/31/11	75,000	119	89,240
				<u>\$ 116,218</u>
Michael P. Scarpelli	7/1/11-9/30/11	\$ 22,351	36%	\$ 8,040
	10/1/11-12/31/11	43,750	119	52,057
				<u>\$ 60,097</u>
Frederic B. Luddy	7/1/11-9/30/11	\$ 75,000	36%	\$ 26,978
	10/1/11-12/31/11	75,000	119	89,240
				<u>\$ 116,218</u>
Arne Josefsberg	7/1/11-9/30/11	\$ 4,402	36%	\$ 1,583
	10/1/11-12/31/11	33,750	119	40,158
				<u>\$ 41,741</u>
David L. Schneider	7/1/11-9/30/11	\$ 62,500	36%	\$ 22,482
	10/1/11-12/31/11	62,500	119	74,367
				<u>\$ 96,849</u>
Daniel R. McGee	7/1/11-9/30/11	\$ 17,880	36%	\$ 6,432
	10/1/11-12/31/11	35,000	119	41,645
				<u>\$ 48,077</u>

The Target Quarterly Bonuses for Messrs. Scarpelli, Josefsberg and McGee were pro-rated to reflect their employment for a portion of the quarter ended September 30, 2011.

The cash bonuses earned by the named executive officers during six months ended December 31, 2011 and fiscal 2011 are set forth in “—Summary Compensation Table” below.

*Equity Incentive Compensation.* We use equity awards to motivate and reward our executive officers, including the named executive officers, for long-term corporate performance based on the value of our common stock and, thereby, to align the interests of our executive officers with those of our stockholders. Through December 31, 2011, these equity awards have been granted in the form of stock options to purchase shares of our common stock. We believe that stock options, when granted with exercise prices equal to the fair market value of our common stock on the date of grant, provide an appropriate long-term incentive for our executive officers, because the stock options reward them only to the extent that our stock price grows and stockholders realize value following their grant date.

Historically, the size and form of the initial equity awards for our executive officers have been established through arm’s-length negotiation at the time the individual was hired. In making these awards, the Compensation Committee considered, among other things, the prospective role and responsibility of the individual executive, competitive factors, the cash compensation to be received by the executive officer, and the need to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

Prior to this offering, we have granted stock options through our 2005 Stock Plan, which was adopted by our board of directors and approved by our stockholders to permit the grant of stock options, stock bonuses, and

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restricted stock awards to our executive officers, directors, employees, and consultants. The material terms of our 2005 Stock Plan are further described under “—Employee Benefit Plans” below.

In July 2010, our board of directors approved the grant of a stock option to purchase 300,000 shares of our common stock to Mr. Chedrick. This stock option had an exercise price equal to \$1.50 per share, the fair market value of our common stock as determined by our board of directors on the date of grant, and a four-year time-based vesting schedule. Our board of directors determined the size of this stock option grant based on its review of the recommendations of our then-chief executive officer and its subjective assessment of the value of the total compensation package that it wanted to deliver to Mr. Chedrick for fiscal 2011 and the appropriate value of the long-term incentive compensation component of this package. Our board of directors decided not to grant Mr. Luddy a stock option in view of his significant equity stake in our company.

In May 2011, in connection with his joining our company as our President and Chief Executive Officer, the Compensation Committee approved the grant to Mr. Sloodman of a stock option to purchase 6,550,456 shares of our common stock, with an exercise price equal to \$2.60 per share, the fair market value of our common stock as determined by our board of directors on the date of grant, and a four-year time-based vesting schedule. This stock option grant is discussed in more detail in “—Grants of Plan-Based Awards Table” below.

In July 2011, in connection with his joining our company as our Senior Vice President of Sales, the Compensation Committee approved the grant to Mr. Schneider of a stock option to purchase 1,379,044 shares of our common stock, with an exercise price equal to \$3.00 per share, the fair market value of our common stock as determined by our board of directors on the date of grant, and a four-year time-based vesting schedule. In September 2011, our board of directors also approved the grant to Mr. Schneider of a stock option to purchase 275,808 shares of our common stock, with an exercise price equal to \$3.00 per share, the fair market value of our common stock as determined by our board of directors on the date of grant, subject to a performance-based vesting schedule. This performance-based stock option vests on the same four-year vesting schedule as the time-based stock option, subject to an initial determination by the Compensation Committee as to our achievement of our worldwide sales goal for the twelve months ended June 30, 2012. If this worldwide sales goal is not achieved, the total number of shares that will vest under this option will be reduced such that: if the worldwide sales goal is achieved at less than an 80% level, no shares will vest; if the worldwide sales goal is achieved at the 100% level, 100% of the shares will vest; and if the worldwide sales goal is achieved at a level between 80% and 100%, between 0% and 100% will vest determined on a straight-line basis. These stock option grants are discussed in more detail in “—Grants of Plan-Based Awards Table” below.

In August 2011, in connection with his joining our company as our Chief Financial Officer, the Compensation Committee approved the grant to Mr. Scarpelli of a stock option to purchase 1,379,044 shares of our common stock, with an exercise price equal to \$3.00 per share, the fair market value of our common stock as determined by our board of directors on the date of grant, and a four-year time-based vesting schedule. In September 2011, the Compensation Committee also approved the grant to Mr. Scarpelli of a fully-vested stock option to purchase 275,808 shares of our common stock, with an exercise price equal to \$3.00 per share, the fair market value of our common stock as determined by our board of directors on that date. These stock option grants are discussed in more detail in “—Grants of Plan-Based Awards Table” below.

In August 2011, in connection with his joining our company as our Senior Vice President, Engineering, the Compensation Committee approved the grant to Mr. McGee of a stock option to purchase 1,200,000 shares of our common stock, with an exercise price equal to \$3.00 per share, the fair market value of our common stock as determined by our board of directors on the date of grant, and a four-year time-based vesting schedule. This stock option grant is discussed in more detail in “—Grants of Plan-Based Awards Table” below.

In September 2011, in connection with his joining our company as our Chief Technology Officer, the Compensation Committee approved the grant to Mr. Josefsberg of a stock option to purchase 1,350,000 shares of our common stock, with an exercise price equal to \$3.00 per share, the fair market value of our common stock as

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determined by our board of directors on the date of grant, and a four-year time-based vesting schedule. This stock option grant is discussed in more detail in “—Grants of Plan-Based Awards Table” below.

In the absence of a public trading market for our common stock, our board of directors determined the fair market value of our common stock in good faith based upon consideration of a number of relevant factors, including the status of our development efforts, financial status and market conditions. See “Management’s Discussion and Analysis—Critical Accounting Policies and Significant Judgments and Estimates—Common Stock Valuation”

*Equity Award Grant Policy.* Each of the stock options granted to our employees is granted with an exercise price that is equal to the fair market value of our common stock on the date of grant. The stock options granted to our executive officers typically vest either over four years, with one quarter of the shares subject to the option vesting on the first anniversary of the vesting commencement date and the remaining shares subject to the option vesting in equal monthly installments thereafter over three years, or over four years in equal monthly installments. Generally, stock options have a 10-year term.

We do not have any program, plan or obligation that requires us to grant equity compensation on specified dates. However, we typically make equity grants on the 7<sup>th</sup> day of each month. Because we have not been a publicly-traded company, we have not made equity awards in connection with the release or withholding of material non-public information.

The equity awards granted to the named executive officers during the period from July 1, 2011 through December 31, 2011 and fiscal 2011 are set forth in “—Summary Compensation Table” and “—Grants of Plan-Based Awards Table” below.

*New Equity Incentive Plans.* In connection with this offering, our board of directors has adopted a new equity incentive plan as described under “—Employee Benefit Plans” below. This equity incentive plan will replace our existing 2005 Stock Plan immediately upon the signing of the underwriting agreement for this offering and, as described below, will afford the Compensation Committee much greater flexibility in making a wide variety of equity awards. For example, the new equity incentive plan authorizes the grant of stock appreciation rights if the Compensation Committee deems it advisable to do so.

Our board of directors has also adopted a new employee stock purchase plan for our employees, including our executive officers. This employee stock purchase plan will become effective upon the closing of this offering.

*Welfare and Other Employee Benefits.* We have established a tax-qualified Section 401(k) retirement plan for all our U.S. employees, including our executive officers, who satisfy certain eligibility requirements, including requirements relating to age and length of service. We currently do not match any contributions made to the plan by our employees, including executive officers. We intend for the plan to qualify under Section 401(a) of the Code so that contributions by employees to the plan, and income earned on plan contributions, are not taxable to employees until withdrawn from the plan.

In addition, we provide other benefits to our executive officers on the same basis as all of our full-time employees. These benefits include health, dental and vision benefits, health and dependent care flexible spending accounts, short-term and long-term disability insurance, accidental death and dismemberment insurance, and basic life insurance coverage.

We design our employee benefits programs to be affordable and competitive in relation to the market, as well as compliant with applicable laws and practices. We adjust our employee benefits programs as needed based upon regular monitoring of applicable laws and practices, the competitive market and our employees’ needs.

*Perquisites and Other Personal Benefits.* Historically, we have not provided perquisites and other personal benefits to our executive officers. In the future, we may provide perquisites or other personal benefits in limited

circumstances, such as where we believe it is appropriate to assist an individual executive officer in the performance of his or her duties, to make our executive officers more efficient and effective, and for recruitment, motivation or retention purposes. We do not expect that these perquisites or other personal benefits will be a significant aspect of our executive compensation program. All future practices with respect to perquisites or other personal benefits will be approved and subject to periodic review by the Compensation Committee.

### **Employment Agreements**

We have entered into employment agreements with our CEO and the other current named executive officers (other than Messrs. Luddy and Chedrick). Each of these arrangements provides for “at will” employment and sets forth the initial terms and conditions of employment of each executive officer, including base salary, target annual bonus opportunity, standard employee benefit plan participation, a recommendation for an initial stock option grant, opportunities for post-employment compensation and vesting acceleration terms. These offers of employment were each subject to execution of a standard proprietary information and invention agreement and proof of identity and work eligibility in the United States.

Each of these arrangements was approved on our behalf by the Compensation Committee or the board of directors at the recommendation of the Compensation Committee. We believe that these arrangements were necessary to induce these individuals to forego other employment opportunities or leave their current employer for the uncertainty of a demanding position in a new and unfamiliar organization.

In filling our executive positions, the Compensation Committee was aware that, in some situations, it would be necessary to recruit candidates with the requisite experience and skills to manage a growing business in a unique market niche. Accordingly, it recognized that it would need to develop competitive compensation packages to attract qualified candidates in a dynamic labor market. At the same time, the Compensation Committee was sensitive to the need to integrate new executive officers into the executive compensation structure that it was seeking to develop, balancing both competitive and internal equity considerations.

For a summary of the material terms and conditions of this employment arrangements, see “—Employment Arrangements” below.

### **Post-Employment Compensation**

The employment agreements of our CEO and Messrs. Scarpelli, Josefsberg, Schneider and McGee provide for certain protection in the event of their termination of employment under specified circumstances, including following a change in control of our company. We believe that these protections were necessary to induce these individuals to forego other opportunities or leave their current employment for the uncertainty of a demanding position in a new and unfamiliar organization. We also believe that these arrangements serve our executive retention objectives by helping these named executive officers to maintain continued focus and dedication to their responsibilities to maximize stockholder value, including in the event that there is a potential transaction that could involve a change in control of our company. The terms of these arrangements were determined by the Compensation Committee following an analysis of relevant market data for other companies with whom we compete for executive talent.

For a summary of the material terms and conditions of our post-employment compensation arrangements, see “—Potential Payments upon Termination or Change of Control” below.

### **Other Compensation Policies**

*Stock Ownership Guidelines.* We have not implemented a policy regarding minimum stock ownership requirements for our executive officers.

*Compensation Recovery Policy.* Currently, we have not implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our executive officers and other

employees where the payments were predicated upon the achievement of financial results that were subsequently the subject of a financial restatement. We intend to adopt a general compensation recovery, or clawback, policy covering our annual and long-term incentive award plans and arrangements once we are a publicly-traded company and after the SEC adopts final rules implementing the requirement of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

*Derivatives Trading and Hedging Policy.* We have adopted a policy prohibiting the trading of derivatives or the hedging of our equity securities by our employees, including our executive officers, and directors.

## **Tax and Accounting Considerations**

### ***Deductibility of Executive Compensation***

Section 162(m) of the Code generally disallows public companies a tax deduction for federal income tax purposes of remuneration in excess of \$1 million paid to the chief executive officer and each of the three other most highly-compensated executive officers (other than the chief financial officer) in any taxable year. Generally, remuneration in excess of \$1 million may only be deducted if it is “performance-based compensation” within the meaning of the Code. In this regard, the compensation income realized upon the exercise of stock options granted under a stockholder-approved stock option plan generally will be deductible so long as the options are granted by a committee whose members are non-employee directors and certain other conditions are satisfied.

Because we are not currently publicly-traded, our board of directors has not previously taken the deductibility limit imposed by Section 162(m) into consideration in setting compensation for our executive officers. We expect that, where reasonably practicable, the Compensation Committee will seek to qualify the variable compensation paid to our executive officers for the “performance-based compensation” exemption from the deductibility limit. As such, in approving the amount and form of compensation for our executive officers in the future, we will consider all elements of our cost of providing such compensation, including the potential impact of Section 162(m). In the future, the Compensation Committee may, in its judgment, authorize compensation payments that do not comply with an exemption from the deductibility limit when it believes that such payments are appropriate to attract and retain executive talent.

### ***Taxation of “Parachute” Payments***

Sections 280G and 4999 of the Code provide that executive officers and directors who hold significant equity interests and certain other service providers may be subject to significant additional taxes if they receive payments or benefits in connection with a change in control of our company that exceeds certain prescribed limits, and that we (or our successor) may forfeit a deduction on the amounts subject to this additional tax. We did not provide any executive officer, including any named executive officer, with a “gross-up” or other reimbursement payment for any tax liability that the executive officer might owe as a result of the application of Sections 280G or 4999 during 2011, and we have not agreed and are not otherwise obligated to provide any executive officer with such a “gross-up” or other reimbursement.

### ***Accounting for Stock-Based Compensation***

We follow Financial Accounting Standard Board Accounting Standards Codification, or ASC, Topic 718 for our stock-based compensation awards. ASC 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options, based on the grant date “fair value” of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards.



## Compensation-Related Risk

Our board of directors is responsible for the oversight of our risk profile, including compensation-related risks. Our board of directors monitors our compensation policies and practices as applied to our employees to ensure that these policies and practices do not encourage excessive and unnecessary risk-taking, and that the level of risk that they do encourage is not reasonably likely to have a material adverse effect on us.

## Summary Compensation Table

The following table presents summary information regarding the total compensation awarded to, earned by, or paid to each of our named executive officers for services rendered in all capacities for the six months ended December 31, 2011 and fiscal 2011.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus<sup>(1)</sup> (\$)</u>	<u>Option Awards<sup>(2)</sup> (\$)</u>	<u>Non-Equity Incentive Plan Compensation (\$)<sup>(3)</sup></u>	<u>All Other Compensation<sup>(4)</sup> (\$)</u>	<u>Total (\$)</u>
Frank Sloodman, <i>President and Chief Executive Officer</i> <sup>(5)</sup>	*	150,000	—	—	116,218	—	266,218
	2011	52,500	—	8,527,384	37,500	—	8,617,384
Michael P. Scarpelli, <i>Chief Financial Officer</i> <sup>(6)</sup>	*	104,183	—	3,342,968	60,097	—	3,507,248
	2011	—	—	—	—	—	—
Frederic B. Luddy, <i>Chief Product Officer</i> <sup>(7)</sup>	*	152,500	—	—	116,218	2,040	270,758
	2011	330,000	91,840	—	300,000	3,840	725,680
Arne Josefsberg, <i>Chief Technology Officer</i> <sup>(8)</sup>	*	79,327	—	3,105,270	41,741	—	3,226,338
	2011	—	—	—	—	—	—
David L. Schneider, <i>Senior Vice President of Worldwide Sales and Services</i> <sup>(9)</sup>	*	125,000	—	3,690,379	96,849	—	3,912,228
	2011	18,109	—	—	17,123	—	35,232
Daniel R. McGee, <i>Senior Vice President, Engineering and Support</i> <sup>(10)</sup>	*	98,500	—	2,726,280	48,077	—	2,872,857
	2011	—	—	—	—	—	—
Andrew J. Chedrick, <i>former Chief Financial Officer and Vice President, Finance</i> <sup>(11)</sup>	*	127,500	5,000	—	89,670	2,040	224,210
	2011	255,000	54,670	247,380	120,000	3,840	680,890

\* In February 2012, we changed our fiscal year-end from June 30 to December 31. The amounts reported in this row represent the compensation awarded to, earned by, and paid to the named executive officers for the six months ended December 31, 2011.

(1) The amounts reported in the Bonus column represent the annual bonuses paid to the named executive officers, except for the amount reported for Mr. Chedrick for the six months ended December 31, 2011, which is a discretionary bonus.

(2) The amounts reported in the Option Awards column represent the grant date fair value of the stock options granted to the named executive officers during fiscal 2011 and during the six months ended December 31, 2011 as computed in accordance with FASB ASC 718. The assumptions used in calculating the grant date fair value of the stock options reported in the Option Awards column are set forth in Note 12 to our consolidated financial statements. The amounts reported in this column exclude the impact of estimated forfeitures.

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related to service-based vesting conditions, reflect the accounting cost for these stock options, and do not correspond to the actual economic value that may be received by the named executive officers from the options.

- (3) The amounts reported in the Non-Equity Incentive Plan Compensation column represent the quarterly bonuses paid to the named executive officers.
- (4) The amounts reported includes the payment of premiums for health insurance coverage.
- (5) Mr. Sloomman became our President and Chief Executive Officer in May 2011.
- (6) Mr. Scarpelli became our Chief Financial Officer in August 2011.
- (7) Mr. Luddy served as our President and Chief Executive Officer until May 2011, at which time he was appointed our Chief Product Officer.
- (8) Mr. Josefsberg became our Chief Technology Officer in September 2011.
- (9) Mr. Schneider became our Senior Vice President of Worldwide Sales and Services in June 2011.
- (10) Mr. McGee became our Senior Vice President, Engineering in August 2011.
- (11) Mr. Chedrick served as our Chief Financial Officer until August 2011, at which time he became our Vice President, Finance.

### Grants of Plan-Based Awards Table

The following table presents, for each of the named executive officers, information concerning each grant of a cash or equity award made during fiscal 2011 and the six months ended December 31, 2011. This information supplements the information about these awards set forth in “—Summary Compensation Table.”

Named Executive Officer	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Target) (\$)	All Other Option Awards: Number of Securities Underlying Options <sup>(1)</sup> (#)	Exercise or Base Price of Option Awards <sup>(2)</sup> (\$/sh)	Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup> (\$)
Frank Sloomman	—	150,000 <sup>(4)</sup>	—	—	—
	—	37,500 <sup>(5)</sup>	—	—	—
	05/06/2011	—	6,550,456	2.60	8,527,384
Michael P. Scarpelli	—	66,101 <sup>(4)</sup>	—	—	—
	08/15/2011	—	1,379,044	3.00	3,133,050
	09/09/2011	—	275,808	3.00	209,917
Frederic B. Luddy	—	150,000 <sup>(4)</sup>	—	—	—
	—	300,000 <sup>(5)</sup>	—	—	—
Arne Josefsberg	—	38,152 <sup>(4)</sup>	—	—	—
	09/22/2011	—	1,350,000	3.00	3,105,270
David L. Schneider	—	125,000 <sup>(4)</sup>	—	—	—
	07/22/2011	—	1,379,044	3.00	3,080,926
	—	17,123 <sup>(5)</sup>	—	—	—
	09/09/2011	—	275,808 <sup>(6)</sup>	3.00	609,453
Daniel R. McGee	—	52,880 <sup>(4)</sup>	—	—	—
	08/15/2011	—	1,200,000	3.00	2,726,280
Andrew J. Chedrick	07/16/2010	—	300,000	1.50	247,380
	—	120,000 <sup>(5)</sup>	—	—	—

- (1) All stock options were granted under our 2005 Stock Plan with a four-year time-based vesting schedule, subject to acceleration as described in “—Potential Payments upon Termination or Change in Control.”
- (2) Represents the per share fair market value of our common stock, as determined in good faith by our board of directors on the grant date.
- (3) Represents the aggregate fair value amount computed as of the grant date of each stock option in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 12 to our consolidated financial statements. As required by SEC rules, the amounts reported exclude the impact of estimated forfeitures related to service-based vesting conditions. The named executive officers will only realize compensation to the extent the market price of our common stock is greater than the exercise price of such stock options.
- (4) Represents the target award payable under our company’s bonus plan for the six-month period from July 1, 2011 through December 31, 2011.
- (5) Represents the target award payable under our company’s bonus plan for fiscal 2011.
- (6) The vesting of this option is subject to an initial determination by our Compensation Committee as to our achievement of our worldwide sales goal for the twelve months ending June 30, 2012. If this worldwide sales goal is not achieved, the total number of shares that will

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vest under this option will be reduced such that: if the worldwide sales goal is achieved at less than an 80% level, no shares will vest; if the worldwide sales goal is achieved at the 100% level, 100% of the shares will vest; and if the worldwide sales goal is achieved at a level between 80% and 100%, between 0% and 100% will vest determined on a straight-line basis.

### Outstanding Equity Awards at December 31, 2011 Table

The following table presents, for each of the named executive officers, information regarding outstanding stock options and other equity awards held as of December 31, 2011.

Name	Grant Date <sup>(1)</sup>	Option Awards			Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(6)</sup>
Frank Slootman	5/6/2011	6,350,456 <sup>(2)</sup>	2.60	05/05/2021	200,000 <sup>(3)</sup>	—
Michael P. Scarpelli	8/15/11	1,379,044 <sup>(2)</sup>	3.00	08/14/2021	—	—
Frederic B. Luddy	9/9/09	240,000 <sup>(4)</sup>	0.34	09/9/2019	—	—
Arne Josefsberg	9/22/11	1,350,000 <sup>(2)</sup>	3.00	09/21/2021	—	—
David L. Schneider	7/22/11	1,379,044 <sup>(2)</sup>	3.00	07/21/2021	—	—
	9/9/11	275,808 <sup>(2)(7)</sup>	3.00	09/08/2021	—	—
Daniel R. McGee	8/15/11	1,200,000 <sup>(2)</sup>	3.00	08/14/2021	—	—
Andrew J. Chedrick	2/7/07	220,000 <sup>(2)(8)</sup>	0.03	2/7/2017	—	—
	7/16/10	300,000 <sup>(5)</sup>	1.50	7/15/2020	—	—

(1) All of the outstanding equity awards described below were granted under our 2005 Stock Plan.

(2) These stock options are immediately exercisable in full, subject to a right of repurchase in our favor, which lapses as the shares of our common stock underlying the option vests. The option shares vest over a four-year period as follows: 25% of the shares of our common stock underlying the options vest on the first anniversary of the individual's employment commencement date and, thereafter, the remaining shares of our common stock underlying the options vest in 36 equal monthly installments over the next three years provided that the named executive officer continues to be employed by or otherwise provides services to our company. In addition, the vesting of these stock options may be accelerated in the event of a change in control of our company as provided in the named executive officer's employment agreement.

(3) Mr. Slootman has exercised his outstanding stock option with respect to 200,000 shares of our common stock. These shares are subject to a right of repurchase in our favor which expires on May 12, 2012.

(4) This stock option is immediately exercisable in full, subject to a right of repurchase in our favor which lapses as the shares of our common stock underlying the option vest. The option shares vest over a four-year period as follows: 1/48th of the shares of our common stock underlying the option vest on the first day of each month following July 1, 2009 for Mr. Luddy, provided that he continues to be employed by or otherwise provides services to our company on each such vesting date. In addition, the vesting of 100% of the option shares would have been accelerated had a change in control of our company occurred before July 1, 2010.

(5) This stock option is immediately exercisable in full, subject to a right of repurchase in our favor which lapses as the shares of our common stock underlying the option vest. The option shares vest over a four-year period as follows: 1/48th of the shares of our common stock underlying the option vests on the first day of each month following July 1, 2007 for Mr. Chedrick, provided that he continues to be employed by or otherwise provides services to our company on each such vesting date. In addition, the vesting of 50% of the then unvested option shares would have been accelerated had Mr. Chedrick been terminated one month prior to or up to 13 months following a change in control of our company.

(6) The market price for our common stock is based on the assumed initial public offering price of \$ per share, the midpoint of the price range on the cover page of this prospectus.

(7) This stock option is also subject to performance-based vesting criteria as described in "Grants of Plan-Based Awards Table."

(8) Fully vested.

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### Option Exercises Table

The following table presents, for each of the named executive officers, the number of shares of our common stock acquired upon the exercise of stock options during the six months ended December 31, 2011, and the aggregate value realized upon the exercise of such awards. The value realized is based upon the fair market value of our common stock on the exercise date, as determined by our board of directors.

<u>Name</u>	<u>Option Awards – Number of Shares Acquired on Exercise (#)</u>	<u>Option Awards – Value Realized on Exercise (\$)</u>
Frank Sloodman	200,000	\$ 80,000
Michael P. Scarpelli	275,808	—
Frederic B. Luddy	—	—
Arne Josefsberg	—	—
David L. Schneider	—	—
Daniel R. McGee	—	—
Andrew J. Chedrick	—	—

During fiscal 2011, Mr. Chedrick acquired 80,000 shares of our common stock upon the exercise of stock options with an aggregate value realized of \$147,500.

### Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for our executive officers during either the six months ended December 31, 2011 or fiscal 2011.

### Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our executive officers during either the six months ended December 31, 2011 or fiscal 2011.

### Employment Arrangements

We have entered into employment agreements with each of the named executive officers (other than Messrs. Luddy and Chedrick) in connection with his commencement of employment with us. Each of these arrangements was negotiated on our behalf by our Compensation Committee or our CEO.

Typically, these arrangements provides for “at will” employment and sets forth the initial terms and conditions of employment of each executive officer, including base salary, target annual bonus opportunity, standard employee benefit plan participation, a recommendation for an initial stock option grant, opportunities for post-employment compensation and vesting acceleration terms. These offers of employment were each subject to execution of a standard proprietary information and invention agreement and proof of identity and work eligibility in the United States.

#### *Mr. Sloodman*

On May 2, 2011, Mr. Sloodman joined us as our Chief Executive Officer. In hiring Mr. Sloodman, our board of directors approved an employment agreement with a period of three years, setting forth the principal terms and conditions of his employment, including an initial annual base salary of \$300,000 (subject to review by the Compensation Committee at least annually), a target annual cash bonus opportunity of \$300,000 (based on his performance relative to one or more performance objectives established each year by the Compensation Committee), and, subject to the approval of our board of directors, a time-based stock option award to purchase

6,550,456 shares of our common stock. His stock option is described in more detail in “—Grants of Plan-Based Awards Table” above.

*Mr. Scarpelli*

On August 15, 2011, Mr. Scarpelli joined us as our Chief Financial Officer. In hiring Mr. Scarpelli, our board of directors approved an employment agreement with a period of three years, setting forth the principal terms and conditions of his employment, including an initial annual base salary of \$275,000 (subject to review by our CEO and the Compensation Committee at least annually), a target annual cash bonus opportunity of \$175,000 (based on his performance relative to one or more performance objectives established each year by our CEO and the Compensation Committee), subject to the approval of our board of directors, a time-based stock option award to purchase 1,379,044 shares of our common stock, and subject to the approval of our board of directors, a fully-vested stock option award to purchase 137,904 shares of our common stock. These stock options are described in more detail in “—Grants of Plan-Based Awards Table” above.

*Mr. Josefsberg*

On September 19, 2011, Mr. Josefsberg joined us as our Chief Technology Officer. In hiring Mr. Josefsberg, our board of directors approved an employment agreement with a period of three years, setting forth the principal terms and conditions of his employment, including an initial annual base salary of \$275,000 (subject to review by our CEO and the Compensation Committee at least annually), a target annual cash bonus opportunity of \$135,000 (based on his performance relative to one or more performance objectives established each year by our CEO and the Compensation Committee), subject to the approval of our board of directors, a time-based stock option award to purchase 1,350,000 shares of our common stock. This stock option is described in more detail in “—Grants of Plan-Based Awards Table” above.

*Mr. Schneider*

On June 6, 2011, Mr. Schneider joined us as our Senior Vice President of Sales. In hiring Mr. Schneider, our board of directors approved an employment agreement with a period of three years, setting forth the principal terms and conditions of his employment, including an initial annual base salary of \$250,000 (subject to review by our CEO and the Compensation Committee at least annually), a target annual cash bonus opportunity of \$250,000 (based on his performance relative to one or more performance objectives established each year by our CEO and the Compensation Committee), subject to the approval of our board of directors, a time-based stock option award to purchase 1,379,044 shares of our common stock, and subject to the approval of our board of directors, a performance-based stock option award to purchase 275,808 shares of our common stock. These stock options are described in more detail in “—Grants of Plan-Based Awards Table” above.

*Mr. McGee*

On August 15, 2011, Mr. McGee joined us as our Senior Vice President, Engineering. In hiring Mr. McGee, our board of directors approved an employment agreement with a period of three years, setting forth the principal terms and conditions of his employment, including an initial annual base salary of \$260,000 (subject to review by our CEO and the Compensation Committee at least annually), a target annual cash bonus opportunity of \$140,000 (based on his performance relative to one or more performance objectives established each year by our CEO and the Compensation Committee), subject to the approval of our board of directors, a time-based stock option award to purchase 1,200,000 shares of our common stock. This stock option is described in more detail in “—Grants of Plan-Based Awards Table” above.

In the case of the named executive officers (other than Mr. Luddy), their employment agreements also contain provisions that provide for certain payments and benefits in the event of certain terminations of employment, including a termination of employment following a change in control of our company. For a

summary of the material terms and conditions of these provisions, as well as an estimate of the potential payments and benefits payable to these named executive officers under their employment arrangements, see “—Potential Payments upon Termination or Change in Control” below.

### **Potential Payments upon Termination or Change in Control**

The named executive officers (other than Mr. Luddy) are eligible to receive certain severance payments and benefits in connection with a termination of employment under various circumstances, including following a change in control of our company. The estimated potential severance payments and benefits payable to these named executive officers in the event of termination of employment as of December 31, 2011 pursuant to their employment agreements or stock option agreements, as applicable, are described below.

The actual amounts that would be paid or distributed to an eligible named executive officer as a result of a termination of employment occurring in the future may be different than those presented below as many factors will affect the amount of any payments and benefits upon a termination of employment. For example, some of the factors that could affect the amounts payable include the named executive officer’s base salary and the market price of our common stock. Although we have entered into a written agreement to provide severance payments and benefits in connection with a termination of employment under particular circumstances, we, or an acquirer, may mutually agree with the named executive officers to provide payments and benefits on terms that vary from those currently contemplated. Finally, in addition to the amounts presented below, each named executive officer would also be able to exercise any previously-vested stock options that he held. For more information about the named executive officers’ outstanding equity awards as of December 31, 2011, see “—Outstanding Equity Awards at Fiscal Year-End Table” above.

The named executive officers are eligible to receive any benefits accrued under our broad-based benefit plans, such as accrued vacation pay, in accordance with those plans and policies.

#### *Involuntary Termination of Employment—Cash Severance*

In the event of an involuntary termination of employment (a termination of employment by us without “cause” (as defined in the relevant employment agreement or employment offer letter)) or by the named executive officer for “good reason” (as defined in the relevant employment agreement or employment offer letter) at any time other than during the period that begins three months prior to and ends 12 months following the effective date of a change in control of our company (as defined in the relevant employment agreement or employment offer letter), the named executive officers are eligible to receive the following payments and benefits:

- his then-annual base salary for a period of six months (12 months in the case of our CEO) from the date of termination;
- any portion of his annual target bonus opportunity which he would have received had he been employed on the last day of the fiscal year in which the termination of employment occurs pro-rated for a six-month period (12 months in the case of our CEO); and
- health insurance premiums for himself and his eligible dependents under our group health insurance plans as provided under the Consolidated Omnibus Budget Reconciliation Act, or COBRA, until the earliest of (i) the close of the six-month period (12 months in the case of our CEO) commencing on the date of his termination of employment, (ii) the expiration of his eligibility for continued coverage under COBRA, or (iii) the date when he becomes eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment.

The receipt of any payment termination-based payments or benefits is subject to the named executive officer executing (and not subsequently revoking) a waiver and release of claims in favor of us and continued

compliance during the period in which he is receiving severance payments and benefits with certain post-termination non-solicitation and non-disparagement covenants.

*Involuntary Termination of Employment in Connection with a Change in Control—Cash Severance*

In the event of an involuntary termination of employment (a termination of employment by us without “cause” or by the named executive officer for “good reason”) during the period that begins three months prior to and ends 12 months following the effective date of a change in control of our company, or the Change in Control Period, the named executive officers are eligible to receive the following payments and benefits:

- a lump-sum payment equal to his then-annual base salary for a period of six months (12 months in the case of our CEO) from the date of termination;
- his annual target bonus opportunity without regard to achievement of any corporate performance goals; and
- health insurance premiums for himself and his eligible dependents under our group health insurance plans as provided under COBRA until the earliest of (i) the close of the six-month period (12 months in the case of our CEO) commencing on the date of his termination of employment, (ii) the expiration of his eligibility for continued coverage under COBRA or (iii) the date when he becomes eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment.

The receipt of any payment termination-based payments or benefits is subject to the named executive officer executing (and not subsequently revoking) a waiver and release of claims in favor of us and continued compliance during the period in which he is receiving severance payments and benefits with certain post-termination non-solicitation and non-disparagement covenants

*Outstanding Equity Awards*

In the event of a change in control of our company prior to the closing of the first sale of shares of our common stock in a firm-commitment underwritten public offering of securities, or an IPO, 50% of the total number of shares of our common stock subject to outstanding and unvested equity awards will immediately vest. In the event of a change in control of our company on or after an IPO, 100% of the total number of shares of our common stock subject to outstanding and unvested equity awards will immediately vest.

In addition, in the event of an involuntary termination of employment (a termination of employment by us without “cause” or by the named executive officer for “good reason”) or if we terminate his employment following a material adverse change in his title or reporting relationships without his consent, the outstanding equity awards of the named executive officers will be subject to accelerated vesting as follows:

- in the case of our CEO, 12.5% of the total number of shares of our common stock subject to outstanding equity awards will immediately vest if termination of employment occurs prior to or following the Change in Control Period, which will be increased to 25% if such termination of employment also occurs within the first 12 months of his employment; or
- in the case of the other named executive officers, 25% of the total number of shares of our common stock subject to outstanding equity awards will immediately vest if termination of employment occurs prior to or following the Change in Control Period, or within the first 12 months of his employment; or
- 100% of the then-unvested shares of our common stock subject to outstanding equity awards will immediately vest if termination of employment occurs during the Change in Control Period.

*Excise Taxes*

Any payment or benefit provided under his employment agreement (in the case of our CEO) or his employment offer letter (in the case of the other named executive officers) in connection with a change in control

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of our company may be subject to an excise tax under Section 4999 of the Code. These payments and benefits also may not be eligible for a federal income tax deduction pursuant to Section 280G of the Code. If any of these payments or benefits are subject to the excise tax, they may be reduced to provide the affected named executive officer with the best after-tax result. Specifically, he will receive either a reduced amount so that the excise tax is not triggered, or he will receive the full amount of the payments and benefits and then be personally liable for any excise tax.

### Potential Payments upon Termination or Change in Control Table

The following table sets forth the estimated payments that would be received by the named executive officers upon a termination of employment without cause or following a resignation for good reason, or in the event of a termination of employment without cause or following a resignation for good reason in connection with a change in control in our company. The table below reflects amounts payable to the named executive officers assuming that their employment was terminated on December 31, 2011 and, if applicable, a change in control of our company also occurred on that date.

Name	Upon Termination without Cause or Resignation for Good Reason— No Change in Control			Upon Termination without Cause or Resignation for Good Reason— Change in Control			
	Cash Severance	Continuation of Medical Benefits	Total	Cash Severance	Continuation of Medical Benefits	Value of Accelerated Vesting <sup>(1)</sup>	Total
Mr. Sloodman	\$300,000	\$ 14,237	\$ 314,327	\$ 300,000	\$ 14,237	\$	\$
Mr. Scarpelli	225,000	9,046	234,046	225,000	9,046		
Mr. Luddy	—	—	—	—	—		
Mr. Josefsberg	205,000	9,046	214,046	205,000	9,046		
Mr. Schneider	250,000	9,046	259,046	250,000	9,046		
Mr. McGee	200,000	7,118	207,118	200,000	7,118		

- (1) The accelerated stock option values are calculated based on the assumed initial public offering price of \$ per share, the midpoint of the price range on the cover page of this prospectus, less the exercise price of each outstanding stock option.

#### *Mr. Chedrick*

On December 14, 2011, Mr. Chedrick, our Vice President, Finance, resigned effective January 1, 2012. In connection with his resignation, and in exchange for his execution of a release and waiver of claims in favor of us, Mr. Chedrick continued to receive his base salary and accrued paid time off through his date of termination of employment. In addition, we agreed to pay the premiums for continued coverage under our group health insurance plans for him and his eligible dependents until the earliest of (i) the close of the six month period commencing on the date of his termination of employment, (ii) the expiration of his eligibility for continued coverage under COBRA or (iii) the date when he becomes eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment. Finally, all of Mr. Chedrick's outstanding stock options ceased vesting as of his date of termination of employment and the exercise of any vested portions of such stock options was governed by the relevant plan documents pursuant to which the options were granted.

### Employee Benefit Plans

#### *2005 Stock Plan*

Our board of directors adopted, and our stockholders approved, our 2005 Stock Plan in March 2005. Our 2005 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees or any parent or subsidiary's employees, and for the grant of nonstatutory stock options and RSUs to our employees, directors, and consultants and any parent or subsidiary's employees and consultants.



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Stock purchase rights and RSUs may also be granted under the 2005 Stock Plan. As of March 31, 2012, an aggregate of 59,580,440 shares of our common stock are reserved for issuance under our 2005 Stock Plan. Upon the signing of the underwriting agreement relating to this offering, no further equity awards will be made under our 2005 Stock Plan. We intend to grant all future equity awards under our 2012 equity incentive plan, or the 2012 Plan, and our 2012 employee stock purchase plan, or the 2012 Purchase Plan. However, all stock options and RSUs granted under our 2005 Stock Plan will continue to be governed by the terms of our 2005 Stock Plan. The purposes of the 2005 Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of our business.

*Administration.* Subject to the terms of the 2005 Stock Plan, our board of directors or an authorized committee, referred to as the plan administrator, has the discretion to make all decisions implementing the 2005 Stock Plan including the power to determine recipients, dates of grant, the numbers and types of stock awards to be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth below, the plan administrator will also determine the exercise price of options granted, and the consideration (if any) to be paid for restricted stock awards.

*Stock Options.* Incentive and nonstatutory stock options are granted pursuant to incentive and nonstatutory stock option agreements adopted by the plan administrator. Generally, the exercise price for an incentive stock option or a nonstatutory stock option cannot be less than 100% of the fair market value of the common stock subject to the option on the date of grant. No incentive stock option may be granted to any person who, at the time of the grant, owns or is deemed to own stock comprising more than 10% of our total combined voting power or that of any of our affiliates unless (a) the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and (b) the term of the incentive stock option does not exceed five years from the date of grant. Options granted under the 2005 Stock Plan will vest at the rate specified in the option agreement. A stock option agreement may provide for early exercise prior to vesting and rights of repurchase.

The term of stock options granted under the 2005 Stock Plan may not exceed 10 years. Unless the terms of an optionholder's stock option agreement provides for earlier or later termination, if an optionholder's service relationship with us, or any affiliate of ours, ceases due to disability or death, the optionholder, or his or her beneficiary, may exercise any vested options up for the period of time set forth in the applicable stock option agreement, provided the time period is at least six months after the date the service relationship ends. If an optionholder's service relationship with us, or any affiliate of ours, ceases without cause for any reason other than disability or death, the optionholder may exercise any vested options for the period of time set forth in the applicable stock option agreement, provided the time period is at least 30 days after the date the service relationship end. In no event may an option be exercised after its expiration date. A stock option may never be exercised later than the expiration of its term.

The forms of consideration for the purchase of our common stock under the 2005 Stock Plan that the plan administrator may approve include cash, check, delivery of a promissory note, cancellation of indebtedness, waiver of accrued compensation, shares of stock already owned, consideration paid through a same-day sale cashless brokered exercise program adopted by the plan administrator or any combination of such consideration.

*Limitations.* The aggregate fair market value, determined at the time of grant, of shares of our common stock with respect to incentive stock options that are exercisable for the first time by an optionholder during any calendar year under all of our stock plans may not exceed \$100,000. The options or portions of options that exceed this limit are treated as nonstatutory stock options.

*Stock Purchase Rights.* The plan administrator may offer rights to purchase shares of our common stock under the 2005 Stock Plan and, to the extent permitted by applicable law, shall determine the purchase price of the shares subject to each stock purchase right. The offer to purchase shares underlying this stock purchase right

shall be accepted by the offeree's execution of a restricted stock purchase agreement, in the form prescribed by the Compensation Committee. This restricted stock purchase agreement may subject the acquired shares to a repurchase option, which we could exercise upon the voluntary or involuntary termination of the purchaser's services for any reason.

*Restricted Stock Units.* Our 2005 Stock Plan also permits the issuance of RSUs to our service providers. RSUs granted under our 2005 Stock Plan represent the right to receive shares of our common stock or cash payment at a specified future date and may be subject to vesting requirements.

*Transferability.* Incentive stock options may not be transferred, except by will or by the laws of descent or distribution. Generally, nonstatutory stock options, RSUs and stock purchase rights may not be transferred except by will or by the laws of descent or distribution. However, the plan administrator may, in its sole discretion, grant nonstatutory stock options, RSUs or stock purchase rights that may be transferred to immediate family members.

*Changes to Capitalization.* In the event that there is a specified type of change in our capital structure not involving the receipt of consideration by us, such as a stock split, stock dividend or other recapitalization, the 2005 Stock Plan provides for the proportional adjustment of the number of shares reserved under the 2005 Stock Plan and the number of shares and exercise price or strike price, if applicable, of all outstanding stock awards.

*Corporate Transactions.* Unless otherwise provided in the award agreement, in the event of certain corporate transactions, any or all outstanding stock awards under the 2005 Stock Plan must be assumed or substituted for by any surviving entity. If the surviving entity elects not to assume or substitute for such awards, such stock awards will fully vest for a period of time to be determined by the plan administrator, following which they will be terminated. In the event of our dissolution or liquidation, all outstanding stock awards under the 2005 Stock Plan will terminate immediately prior to such event.

*Additional Provisions.* Our board of directors has the authority to amend, alter, suspend or terminate the 2005 Stock Plan. However, no amendment or termination of the plan may adversely affect any rights under awards already granted to a participant without the affected participant's consent. We will obtain stockholder approval of any amendment to the 2005 Stock Plan as required by applicable law. The 2005 Stock Plan will expire in July 2021 unless sooner terminated by our board of directors or in connection with the effective date of this offering and our 2012 Plan.

### **2012 Equity Incentive Plan**

In April 2012, our board of directors adopted our 2012 Plan, subject to stockholder approval, to become effective on the date immediately prior to the date on which the registration statement is declared effective. The 2012 Plan will terminate in 2022, unless sooner terminated by our board of directors. The purpose of the 2012 Plan is to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards and cash-based performance bonus awards. The 2012 Plan is also designed to permit us to make cash-based awards and equity-based awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

*Stock Awards.* The 2012 Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, RSUs, performance-based stock awards and other forms of equity compensation, or collectively, stock awards. In addition, the 2012 Plan provides for the grant of performance cash awards. Incentive stock options may be granted only to employees, subject to certain limitations described below. All other awards may be granted to employees, including officers, as well as directors and consultants.

The principal features of the 2012 Plan are summarized below. This summary is qualified in its entirety by reference to the text of the 2012 Plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

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*Share Reserve.* We have initially reserved 9,600,000 shares of our common stock for issuance under the 2012 Plan plus (1) the number of shares reserved but not issued or subject to outstanding awards under the 2005 Stock Plan at the time the 2012 Plan becomes effective and (2) shares that are subject to outstanding stock awards granted under the 2005 Stock Plan that cease to be subject to such awards. Then, the number of shares of our common stock reserved for issuance under the 2012 Plan will automatically increase on January 1 of each year, starting on January 1, 2013 and continuing through January 1, 2022, by (a) 5% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year or (b) such lesser number of shares of common stock as determined by our board of directors. The maximum number of shares that may be issued pursuant to the exercise of incentive stock options under the 2012 Plan is shares plus the number of shares that are added to the 2012 equity incentive plan share reserve pursuant to annual evergreen increases or pursuant to outstanding 2005 Stock Plan awards that again become available for future issuance.

No person may be granted stock awards covering more than 3,000,000 shares of our common stock under the 2012 Plan during any calendar year pursuant to stock options, stock appreciation rights, restricted stock awards or RSUs, other than a new employee of ours, who will be eligible to receive no more than 6,000,000 shares under the 2012 Plan in the calendar year in which the employee commences employment. Such limitations are designed to help assure that any deductions to which we would otherwise be entitled with respect to such stock awards will not be subject to the \$1,000,000 limitation on the income tax deductibility of compensation paid per covered executive officer imposed by Section 162(m) of the Code.

If a stock award granted under the 2012 Plan expires or otherwise terminates without being exercised in full, or is settled in cash, the shares of our common stock not acquired pursuant to the stock award again become available for subsequent issuance under the 2012 Plan. In addition, the following types of shares under the 2005 Stock Plan and 2012 Plan may become available for the grant of new stock awards under the 2012 Plan: (a) shares that are forfeited to or repurchased by us prior to becoming fully vested; (b) shares withheld to satisfy income or employment withholding taxes; (c) shares used to pay the exercise price of an option in a net exercise arrangement; and (d) shares tendered to us to pay the exercise price of an option. As of the date hereof, no shares of our common stock have been issued under the 2012 Plan.

*Administration.* Our board of directors has delegated its authority to administer the 2012 Plan to our compensation committee. The compensation committee is required to consist of two or more “outside directors” within the meaning of Section 162(m) of the Code and two or more “non-employee directors” for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Subject to the terms of the 2012 Plan, our board of directors or an authorized committee, referred to as the plan administrator, determines recipients, dates of grant, the numbers and types of stock awards to be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth below, the plan administrator will also determine the exercise price of options granted, the consideration (if any) to be paid for restricted stock awards and the strike price of stock appreciation rights.

The plan administrator has the authority to reprice any outstanding stock award (by reducing the exercise price of any outstanding option, canceling an option in exchange for cash or another equity award or any other action that may be deemed a repricing under generally accepted accounting provisions) under the 2012 Plan without the approval of our stockholders.

*Stock Options.* Incentive and nonstatutory stock options are granted pursuant to incentive and nonstatutory stock option agreements adopted by the plan administrator. The plan administrator determines the exercise price for a stock option, within the terms and conditions of the 2012 Plan, provided that the exercise price of a stock option cannot be less than 100% of the fair market value of our common stock on the date of grant, except where a higher exercise price is required in the case of certain incentive stock options, as described below. Options granted under the 2012 Plan vest at the rate specified by the plan administrator.

The plan administrator determines the term of stock options granted under the 2012 Plan, up to a maximum of 10 years, except in the case of certain incentive stock options, as described below. Unless the terms of an

optionholder's stock option agreement provide otherwise, if an optionholder's relationship with us, or any of our affiliates, ceases for any reason other than for cause, disability or death, the optionholder may exercise any vested options for a period of three months following the cessation of service. If an optionholder's service relationship with us is terminated for cause, then the option terminates immediately. If an optionholder's service relationship with us or any of our affiliates ceases due to disability or death, or an optionholder dies within the period (if any) specified in the award agreement following cessation of service, the optionholder or a beneficiary may exercise any vested options for a period of 12 months in the event of disability or death. The option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its maximum term.

Acceptable consideration for the purchase of common stock issued upon the exercise of a stock option will be determined by the plan administrator and may include (a) cash, check, bank draft or money order, (b) a broker-assisted cashless exercise, (c) the tender of common stock previously owned by the optionholder, (d) cancellation of our indebtedness to the optionholder, (e) waiver of compensation due to the optionholder for services rendered and (f) other legal consideration approved by the plan administrator.

Unless the plan administrator provides otherwise, options generally are not transferable except by will, the laws of descent and distribution, or pursuant to a domestic relations order. An optionholder may, however, designate a beneficiary who may exercise the option following the optionholder's death.

*Limitations on Incentive Stock Options.* Incentive stock options may be granted only to our employees. The aggregate fair market value, determined at the time of grant, of shares of our common stock with respect to incentive stock options that are exercisable for the first time by an optionholder during any calendar year under all of our stock plans may not exceed \$100,000. No incentive stock option may be granted to any person who, at the time of the grant, owns or is deemed to own stock comprising more than 10% of our total combined voting power or that of any of our affiliates unless (a) the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and (b) the term of the incentive stock option does not exceed five years from the date of grant.

*Restricted Stock Awards.* Restricted stock awards are granted pursuant to restricted stock award agreements adopted by the plan administrator. A restricted stock award is an offer by us to sell shares of our common stock subject to restrictions. The price, if any, of a restricted stock award will be determined by our Compensation Committee. Restricted stock awards may be granted in consideration for (a) cash, check, bank draft or money order, (b) past or future services rendered to us or our affiliates, or (c) any other form of legal consideration determined by our Compensation Committee. Shares of common stock acquired under a restricted stock award may, but need not, be subject to a share repurchase option or forfeiture restriction in our favor in accordance with a vesting schedule to be determined by the plan administrator. Rights to acquire shares under a restricted stock award may be transferred only upon such terms and conditions as set by the plan administrator. Except as otherwise provided in the applicable award agreement, restricted stock awards that have not vested will be forfeited or subject to repurchase upon the participant's cessation of continuous service for any reason.

*Restricted Stock Unit Awards.* RSUs are granted pursuant to restricted stock unit award agreements adopted by the plan administrator. RSUs represent the right to receive shares of our common stock at a specified date in the future, subject to forfeiture of that right because of termination of the holder's services to us or the holder's failure to achieve certain performance conditions. If a RSU has not been forfeited, then on the date specified in the RSU agreement, we may deliver to the holder of the RSU whole shares of our common stock, which may be subject to additional restrictions, cash or a combination of our common stock and cash. Our Compensation Committee may also permit the holders of the RSUs to defer payment to a date or dates after the RSU is earned, provided that the terms of the RSU and any deferral satisfy the requirements of Section 409A of the Code.

*Stock Appreciation Rights.* Stock appreciation rights are granted pursuant to stock appreciation rights agreements adopted by the plan administrator. Stock appreciation rights provide for a payment, or payments, in

cash or shares of our common stock, to the holder based upon the increase in the fair market value of our common stock on the date of exercise from the stated exercise price (subject to any maximum number of shares as may be specified in the applicable award agreement). The payment may occur upon the exercise of a stock appreciation right or deferred with such interest or dividend equivalent, if any, as our compensation committee determines, provided that the terms of the stock appreciation right and any deferral satisfy the requirements of Section 409A of the Code. The plan administrator determines the exercise price for a stock appreciation right which generally cannot be less than 100% of the fair market value of our common stock on the date of grant. Stock appreciation rights may vest based on time or achievement of performance conditions. Stock appreciation rights expire under the same rules that apply to stock options.

*Performance Awards.* The 2012 Plan permits the grant of performance stock awards and performance cash awards that may qualify as performance-based compensation that is not subject to the \$1,000,000 limitation on the income tax deductibility of compensation paid per covered executive officer imposed by Section 162(m) of the Code. To assure that the compensation attributable to performance-based awards will so qualify, our committee can structure such awards so that stock will be issued or paid pursuant to such award only upon the achievement of certain pre-established performance goals during a designated performance period.

*Other Stock Awards.* The plan administrator may grant other awards based in whole or in part by reference to our common stock. The plan administrator will set the number of shares under the award and all other terms and conditions of such awards.

*Changes to Capital Structure.* In the event that there is a specified type of change in our capital structure, such as a stock split, appropriate adjustments will be made to (a) the class and maximum number of shares reserved under the 2012 Plan, (b) the class and maximum number of shares subject to options, stock appreciation rights and performance stock awards that can be granted in a calendar year, (c) the class and maximum number of shares that may be issued upon exercise of incentive stock options and (d) the number of shares and exercise price or strike price, if applicable, of all outstanding stock awards.

*Corporate Transactions.* The 2012 Plan provides that, in the event of a sale, lease or other disposition of all or substantially all of the assets of us or specified types of mergers or consolidations, or a corporate transaction, any surviving or acquiring corporation shall either assume awards outstanding under the 2012 Plan or substitute similar awards for those outstanding under the 2012 Plan. If any surviving corporation declines to assume awards outstanding under the 2012 Plan or to substitute similar awards, then, with respect to participants whose service with us has not terminated prior to the time of such corporate transaction, the vesting and the time during which such awards may be exercised will be accelerated in full, and all outstanding awards will terminate if the participant does not exercise such awards at or prior to the corporate transaction. With respect to any awards that are held by other participants that terminated service with us prior to the corporate transaction, the vesting and exercisability provisions of such awards will not be accelerated and such awards will terminate if not exercised prior to the corporate transaction.

*Changes in Control.* Our board of directors has the discretion to provide that a stock award under the 2012 Plan will immediately vest as to all or any portion of the shares subject to the stock award in the event a participant's service with us or a successor entity is terminated actually or constructively within a designated period following the occurrence of certain specified change in control transactions. Stock awards held by participants under the 2012 Plan will not vest automatically on such an accelerated basis unless specifically provided in the participant's applicable award agreement.

*Plan Suspension or Termination.* Our board of directors has the authority to suspend or terminate the 2012 Plan at any time provided that such action does not impair the existing rights of any participant.

*Securities Laws and Federal Income Taxes.* The 2012 Plan is designed to comply with various securities and federal tax laws as follows:

*Securities Laws.* The 2012 Plan is intended to conform to all provisions of the Securities Act of 1933, as amended, and the Exchange Act and any and all regulations and rules promulgated by the SEC thereunder, including, without limitation, Rule 16b-3. The 2012 Plan will be administered, and options will be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations.

*Section 409A of the Code.* Certain awards under the 2012 Plan may be considered “nonqualified deferred compensation” for purposes of Section 409A of the Code, which imposes certain additional requirements regarding the payment of deferred compensation. Generally, if at any time during a taxable year a nonqualified deferred compensation plan fails to meet the requirements of Section 409A, or is not operated in accordance with those requirements, all amounts deferred under the 2012 Plan and all other equity incentive plans for the taxable year and all preceding taxable years, by any participant with respect to whom the failure relates, are includible in gross income for the taxable year to the extent not subject to a substantial risk of forfeiture and not previously included in gross income. If a deferred amount is required to be included in income under Section 409A, the amount also is subject to interest and an additional income tax. The interest imposed is equal to the interest at the underpayment rate plus one percentage point, imposed on the underpayments that would have occurred had the compensation been includible in income for the taxable year when first deferred, or if later, when not subject to a substantial risk of forfeiture. The additional federal income tax is equal to 20% of the compensation required to be included in gross income. In addition, certain states, including California, have laws similar to Section 409A, which impose additional state penalty taxes on such compensation.

*Section 162(m) of the Code.* In general, under Section 162(m) of the Code, income tax deductions of publicly held corporations may be limited to the extent total compensation (including, but not limited to, base salary, annual bonus, and income attributable to stock option exercises and other non-qualified benefits) for certain executive officers exceeds \$1,000,000 (less the amount of any “excess parachute payments” as defined in Section 280G of the Code) in any taxable year of the corporation. However, under Section 162(m), the deduction limit does not apply to certain “performance-based compensation” established by an independent compensation committee that is adequately disclosed to, and approved by, stockholders. In particular, stock options and stock appreciation rights will satisfy the “performance-based compensation” exception if the awards are made by a qualifying compensation committee, the 2012 Plan sets the maximum number of shares that can be granted to any person within a specified period and the compensation is based solely on an increase in the stock price after the grant date. Specifically, the option exercise price must be equal to or greater than the fair market value of the stock subject to the award on the grant date.

We have attempted to structure the 2012 Plan in such a manner that the compensation attributable to stock options, stock appreciation rights and other performance-based awards which meet the other requirements of Section 162(m) will not be subject to the \$1,000,000 limitation. We have not, however, requested a ruling from the Internal Revenue Service or an opinion of counsel regarding this issue.

#### **2012 Employee Stock Purchase Plan**

In April 2012, our board of directors adopted the 2012 Purchase Plan, subject to stockholder approval, that will become effective upon the closing of this offering. The purpose of the 2012 Purchase Plan is to assist us in retaining the services of new employees and securing the services of new and existing employees while providing incentives for such individuals to exert maximum efforts toward our success.

*Share Reserve.* Following this offering, the 2012 Purchase Plan initially authorizes the issuance of 5,000,000 shares of our common stock pursuant to purchase rights granted to our employees or to employees of our subsidiaries. The number of shares of our common stock reserved for issuance will automatically increase on January 1 of each calendar year, from January 1, 2013 through January 1, 2022, by the lesser of 1% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year or a number determined by our board of directors. The 2012 Purchase Plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Code. As of the date hereof, no shares of our common

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stock have been purchased under the 2012 Purchase Plan. No more than 25,000,000 shares of our common stock may be issued under our 2012 purchase plan, and no other shares may be added to this plan without the approval of our stockholders.

*Administration.* Our board of directors has delegated its authority to administer the 2012 Purchase Plan to our Compensation Committee. The 2012 Purchase Plan is implemented through a series of offerings of purchase rights to eligible employees. Under the 2012 Purchase Plan, we may specify offerings with durations of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of our common stock will be purchased for employees participating in the offering. An offering may be terminated under certain circumstances.

*Payroll Deductions.* Generally, all regular employees, including executive officers, employed by us or by any of our designated affiliates, may participate in the 2012 Purchase Plan and may contribute, normally through payroll deductions, up to 15% of their earnings for the purchase of our common stock under the 2012 Purchase Plan. Unless otherwise determined by our board of directors, common stock will be purchased for accounts of employees participating in the 2012 Purchase Plan at a price per share equal to the lower of (a) 85% of the fair market value of a share of our common stock on the first date of an offering or (b) 85% of the fair market value of a share of our common stock on the date of purchase.

*Limitations.* Employees may have to satisfy one or more of the following service requirements before participating in the 2012 Purchase Plan, as determined by our board of directors: (a) customarily employed for more than 20 hours per week, (b) customarily employed for more than five months per calendar year or (c) continuous employment with us or one of our affiliates for a period of time not to exceed two years. No holder will have the right to purchase our shares at a rate which, when aggregated with purchase rights under all our employee stock purchase plans that are also outstanding in the same calendar year(s), have a fair market value of more than \$25,000, determined in accordance with Section 423 of the Code, for each calendar year in which that right is outstanding. Finally, no employee will be eligible for the grant of any purchase rights under the 2012 Purchase Plan if immediately after such rights are granted, such employee has voting power over 5% or more of our outstanding capital stock measured by vote or value pursuant to Code Section 424(d).

*Changes to Capital Structure.* In the event a change in our capital structure occurs through such actions as a stock split, merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or similar transaction, the board of directors will make appropriate adjustments to (a) the number of shares reserved under the 2012 Purchase Plan, (b) the maximum number of shares that may be issued under the 2012 Purchase Plan and (c) the number of shares and purchase price of all outstanding purchase rights.

*Corporate Transactions.* In the event of a change in control transaction, each outstanding right to purchase shares under our 2012 Purchase Plan may be assumed or substituted by our successor. In the event that the successor refuses to assume or substitute the outstanding purchase rights, any offering periods that commenced prior to the closing of the proposed change in control transaction will be shortened and terminated on a new purchase date. The new purchase date will occur prior to the closing of the proposed change in control and our 2012 Purchase Plan will then terminate on the closing of the proposed change in control.

*Plan Amendment or Termination.* Our board has the authority to amend or terminate the 2012 Purchase Plan at any time. If our board determines that the amendment or termination of an offering is in our best interests and the best interests of our stockholders, then our board may terminate any offering on any purchase date, establish a new purchase date with respect to any offering then in progress, or terminate any offering and return any money contributed by participants that has not been used to purchase shares back to the participants. We will obtain stockholder approval of any amendment to the 2012 Purchase Plan as required by applicable law.

#### **401(k) Plan**

We maintain a defined contribution employee retirement plan for our U.S. employees. The plan is intended to qualify as a tax-qualified 401(k) plan so that contributions to the 401(k) plan, and income earned on such contributions, are not taxable to participants until withdrawn or distributed from the 401(k) plan. Participants may make pre-tax contributions to the 401(k) plan from their eligible earnings up to the statutorily prescribed annual limit on pre-tax contributions under the Code. The 401(k) plan provides that each participant may contribute up to 100% of eligible compensation on a pre-tax or, in the case of the Roth 401(k), after tax basis into their accounts. Participants who are at least 50 years old may also contribute additional amounts based on the statutory limits for “catch-up” contributions. Under the 401(k) plan, each employee is fully vested in his or her deferred salary contributions. Employee contributions are held and invested by the plan’s trustee. Although the 401(k) plan provides for a discretionary employer profit sharing contribution and a discretionary employer matching contribution, we have not made any such contributions on behalf of participating employees to date.

#### **Limitation of Liability and Indemnification**

Our restated certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director’s duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which the director derived an improper personal benefit.

Our restated certificate of incorporation provides that we are required to indemnify our directors and our restated bylaws provide that we are required to indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law. Any repeal of or modification to our restated certificate of incorporation or restated bylaws may not adversely affect any right or protection of a director or officer for or with respect to any acts or omissions of such director or officer occurring prior to such amendment or repeal. Our restated bylaws also provide that we shall advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by our board of directors. With certain exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys’ fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these restated bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors’ and officers’ liability insurance.

The limitation of liability and indemnification provisions in our restated certificate of incorporation and restated bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder’s investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.



## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the executive officer and director compensation arrangements discussed above under “Management” and “Executive Compensation,” the following is a description of transactions since January 1, 2009 to which we have been a participant, in which the amount involved in the transaction exceeds or will exceed \$120,000 and in which any of our directors, executive officers or holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest or such other persons as may be required to be disclosed pursuant to Item 404 of Regulation S-K, which we refer collectively refer to as related parties.

### Preferred Stock Financings

In April 2009, we entered into a Series C Preferred Stock Purchase Agreement pursuant to which we issued and sold to JMI Equity Fund V, L.P. and its affiliates, or JMI Equity, an aggregate of 491,803 shares of Series C convertible preferred stock at a purchase price of \$6.10 per share, for aggregate consideration of \$2,999,998.30 and to JMI Incubator, L.P. and its affiliates, or JMI Incubator, an aggregate of 491,803 shares of Series C convertible preferred stock at a purchase price of \$6.10 per share, for aggregate consideration of \$2,999,998.30. Upon the closing of this offering, these shares will convert into 7,868,848 shares of common stock. JMI Equity and Incubator collectively holds more than 5% of our capital stock. Paul V. Barber, one of our directors, is a Managing Member of JMI Associates V, LLC, the general partner of JMI Equity. Charles E. Noell, III, one of our directors, is a Managing Member of JMI Incubator Associates, LLC, the general partner of JMI Incubator. Additional detail regarding the equity holdings of JMI Equity and JMI Incubator is provided in “Principal Stockholders.” The proceeds were used to offset an outstanding loan to Frederic B. Luddy in the amount of \$6.0 million. Mr. Luddy subsequently settled the loan by delivering to us 7,868,848 shares of common stock.

In November 2009, we entered into a Series D Preferred Stock Purchase Agreement pursuant to which we issued and sold to Sequoia Capital U.S. Growth Fund IV, L.P. and its affiliates, or Sequoia Growth, an aggregate of 2,990,635 shares of Series D convertible preferred stock in multiple closings at a purchase price of \$17.267333 per share, for aggregate consideration of \$51,640,290. Upon the closing of this offering, these shares will convert into 23,925,080 shares of common stock. Sequoia Growth collectively holds more than 5% of our capital stock. Douglas M. Leone, one of our directors, is a Managing Member of SCGF IV Management, L.P., the general partner of Sequoia Growth. Additional detail regarding the equity holdings of Sequoia Growth is provided in “Principal Stockholders.”

In connection with the first closing of the sale and issuance of Series D convertible preferred stock in November 2009, we entered into agreements to repurchase an aggregate of 19,164,000 shares of our common stock held by Frederic B. Luddy, Andrew J. Chedrick, Robert Luddy, Laura Pierce and certain other employees at a purchase price of \$2.1584166 per share. In connection with the second closing of the Series D convertible preferred stock financing in December 2009, we offered to purchase up to 11,064,216 shares of our common stock at a purchase price of \$2.1584166 per share from our former and current employees that started their employment with us on or prior to November 1, 2009, of which 4,346,264 shares were repurchased. In addition, we repurchased two warrants to purchase an aggregate of 51,852 shares of our Series B convertible preferred stock at a price per warrant share of \$16.013772 held by a financial institution. The following table presents the aggregate consideration paid to each related party pursuant to these stock repurchases:

<u>Stockholder</u>	<u>Common Stock Repurchased</u>	<u>Aggregate Consideration</u>
Frederic B. Luddy <sup>(1)</sup>	16,480,000	\$ 35,570,706
Andrew J. Chedrick <sup>(2)</sup>	1,440,000	3,108,120
Robert Luddy <sup>(3)</sup>	448,000	966,971
Laura Pierce <sup>(4)</sup>	68,000	146,772

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- (1) At the time of the stock repurchase, Mr. Frederic B. Luddy was serving as our President and Chief Executive Officer.
- (2) At the time of the stock repurchase, Mr. Chedrick was serving as our Chief Financial Officer.
- (3) Mr. Robert Luddy is the brother of Mr. Frederic B. Luddy.
- (4) Ms. Laura Pierce is the sister of Mr. Frederic B. Luddy.

In connection with the sale and issuance of Series D convertible preferred stock, we entered into amended and restated investor rights, voting, and right of first refusal and co-sale agreements containing voting rights, information rights, rights of first refusal and registration rights, among other things, with certain holders of our convertible preferred stock and certain holders of our common stock. These stockholder agreements will terminate upon the closing of this offering, except for the registration rights granted under our third amended and restated investor rights agreement, as more fully described below in “Description of Capital Stock—Registration Rights.”

### **Common Stock Financing**

In February 2012, we entered into a Common Stock Purchase Agreement pursuant to which we issued and sold to Greylock XIII Limited Partnership and its affiliates, or Greylock, an aggregate of 1,750,980 shares of common stock at a purchase price of \$10.20 per share, for aggregate consideration of \$17,859,996. In connection with this transaction, Frederic Luddy, our Chief Product Officer, also sold 700,000 shares of our common stock to Greylock at a purchase price of \$10.20 per share, for aggregate consideration of \$7,140,000. We waived our right of first refusal in order to allow Mr. Luddy to complete this sale to Greylock.

### **Employment Agreements**

We have entered into employment arrangements with our executive officers, as more fully described in “Executive Compensation—Employment Agreements,” “—Employment Arrangements,” “—Post-Employment Compensation” and “—Potential Payments upon Termination or Change in Control.”

### **Equity Grants to Executive Officers and Directors**

We have granted stock options to our executive officers and directors, as more fully described in the section entitled “Executive Compensation.” We granted 1,000,000 RSUs to Mr. Frederic B. Luddy in March 2012. These RSUs vest annually in four equal installments, on the anniversary of the date of grant.

### **Employment Arrangements with Immediate Family Members of Our Executive Officers and Directors**

Robert Luddy, the brother of Frederic B. Luddy, our founder and Chief Product Officer, has been employed by us since July 1, 2005. During 2009, 2010, and 2011, Mr. Robert Luddy had total cash compensation, including base salary, bonus and other compensation, of \$435,293, \$517,623 and \$464,080, respectively. During fiscal 2010 and 2011 we granted to Mr. Robert Luddy options to purchase 320,000 and 160,000 shares of common stock, respectively. He did not receive any grants in fiscal 2009 or the six months ended December 31, 2011.

Laura Pierce, the sister of Frederic B. Luddy, has been employed by us since January 1, 2007. During 2009, 2010, and 2011, Ms. Pierce had total cash compensation, including base salary, bonus and other compensation, of \$101,500, \$109,108 and \$111,868. During fiscal 2011 and the six months ended December 31, 2011, we granted to Ms. Laura Pierce options to purchase 80,000 and 20,000 shares of common stock, respectively. She did not receive any grants in fiscal 2009 or 2010.

### **Indemnification Agreements**

We have entered into indemnification agreements with each of our directors and executive officers, as described in “Executive Compensation—Limitation of Liability and Indemnification.”

### **Review, Approval or Ratification of Transactions with Related Parties**

The charter of our Audit Committee requires that any transaction with a related party that must be reported under applicable rules of the SEC, other than compensation related matters, must be reviewed and approved or ratified by our Audit Committee. The Audit Committee has not adopted policies or procedures for review of, or standards for approval of, these transactions.

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our capital stock outstanding as of March 31, 2012:

- Each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock;
- Each of our directors;
- Each of our named executive officers;
- All of our directors and executive officers as a group; and
- Each of the selling stockholders.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 111,289,770 shares of common stock outstanding at March 31, 2012, assuming conversion of all outstanding shares of preferred stock into 83,703,016 shares of common stock. For purposes of the table below, we have assumed that \_\_\_\_\_ shares of common stock will be sold in this offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options, warrants or other convertible securities held by that person or entity that are currently exercisable or will be exercisable within 60 days of March 31, 2012. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Except as otherwise noted below, the address for each person or entity listed in the table is c/o ServiceNow, Inc., 12225 El Camino Real, Suite 100, San Diego, California 92130.

Name of Beneficial Owner	Shares Beneficially Owned Prior to the Offering		Shares Being Offered	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
5% or Greater Stockholders					
Entities affiliated with JMI Equity <sup>(1)</sup>	59,826,072	53.76%			%
Entities affiliated with Sequoia Capital <sup>(2)</sup>	23,944,344	21.52			
Certain Other Stockholders					
Entities affiliated with Greylock Partners <sup>(3)</sup>	2,450,980	2.20			
Directors and Named Executive Officers					
Frank Sloodman <sup>(4)</sup>	6,550,456	5.57			
Frederic B. Luddy <sup>(5)</sup>	15,111,152	13.55			
Michael P. Scarpelli <sup>(6)</sup>	1,654,852	1.47			
David L. Schneider <sup>(7)</sup>	1,654,852	1.47			
Arne Josefsberg <sup>(8)</sup>	1,350,000	1.20			
Daniel R. McGee <sup>(9)</sup>	1,200,000	1.07			
Andrew J. Chedrick	492,498	*			
Paul V. Barber <sup>(10)</sup>	40,580,508	36.46			
Ronald E. F. Codd <sup>(11)</sup>	200,000	*			
Douglas M. Leone <sup>(12)</sup>	23,944,344	21.52			
Jeffrey A. Miller <sup>(13)</sup>	200,000	*			
Charles E. Noell, III <sup>(14)</sup>	59,826,072	53.76			
William L. Strauss <sup>(15)</sup>	200,000	*			
All executive officers and directors as a group (13 persons) <sup>(16)</sup>	112,384,226	90.77			

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- \* Represents beneficial ownership of less than one percent.
- (1) Consists of (i) 28,275,358 shares held by JMI Equity Fund V, L.P., (ii) 1,637,678 shares held by JMI Equity Fund V (AI), L.P., (iii) 7,494,302 held by JMI Equity Fund IV, L.P., (iv) 593,470 shares held by JMI Equity Fund IV (AI), L.P., (v) 2,393,038 shares held by JMI Euro Equity Fund IV, L.P., (vi) 186,662 JMI Equity Side Fund, L.P., (vii) 9,751,654 shares held by JMI Participating Partners (viii) 4,746,955 shares held by JMI Services, LLC, and (ix) 4,746,955 shares held by the Rebecca Ann Moores Family Trust. JMI Associates V, L.L.C. is the General Partner of each of JMI Equity Fund V, L.P. and JMI Equity Fund V (AI), L.P. Charles E. Noell III, Harry S. Gruner, Paul V. Barber, Robert F. Smith, Bradford D. Woloson, Peter C. Arrowsmith, Charles T. Dieveney and Jit Sinha share voting and investment power as managing members of JMI Associates V, L.L.C. JMI Associates IV, L.L.C. is the General Partner of each of JMI Equity Fund IV, L.P., JMI Equity Fund IV (AI), L.P. and JMI Euro Equity Fund IV, L.P. Messrs. Noell, Gruner, Barber, Smith, Woloson and Arrowsmith share voting and investment power as managing members of JMI Associates IV, L.L.C. JMI Equity Side Associates, L.L.C. is the General Partner of JMI Equity Side Fund, L.P. Messrs. Noell, Gruner, Barber and Woloson are officers of JMI Equity Side Associates, L.L.C. El Camino Advisors, LLC is the Managing General Partner of JMI Participating Partners. Mr. Noell, John J. Moores and Bryant W. Burke share voting and investment power as members of El Camino Advisors, LLC. manager of JMI Participating Partners. In addition, JMI Equity Fund IV, L.P., JMI Equity Fund IV (AI), L.P., JMI Euro Equity Fund IV, L.P., JMI Equity Side Fund, L.P., JMI Participating Partners, JMI Services, LLC and the Rebecca Ann Moores Family Trust have entered into the Voting Agreement, dated as of February 23, 2012 with JMI Incubator Fund, L.P. and JMI Incubator Fund (QP), L.P., pursuant to which each such person has agreed, among other things, to grant a proxy to and vote its shares as directed by JMI Incubator Fund, L.P. JMI Incubator Associates, L.L.C. is the general partner of JMI Incubator Fund, L.P. and may be deemed to have voting power over the shares held by other parties to the Voting Agreement. John J. Moores and Messrs. Noell and Gruner are managing members of JMI Incubator Associates, L.L.C. and may be deemed the beneficial owners of the shares beneficially owned by JMI Incubator Associates, L.L.C. JMI Services, LLC has entered into a Revolving Loans (Committed Loan) Loan Agreement and a Security and Pledge Agreement, dated as of February 24, 2012, pursuant to which JMI Services, LLC has granted to the lender a security interest in all of our shares held by it. The principal address for JMI Associates V, L.L.C., JMI Associates IV, L.L.C., JMI Equity Fund V, L.P., JMI Equity Fund V (AI), L.P., JMI Side Associates, L.L.C., JMI Equity Fund IV, L.P., JMI Equity Fund IV (AI), L.P., JMI Euro Equity Fund IV, L.P., and JMI Equity Side Fund, L.P. is 100 International Drive, Suite 19100, Baltimore, Maryland 21202. The principal address for JMI Services, LLC, JMI Participating Partners and the Rebecca Ann Moores Family Trust is 111 Congress Avenue, Suite 2600, Austin, Texas 78701.
- (2) Consists of (i) 22,948,252 shares held by Sequoia Capital U.S. Growth Fund IV, LP (Sequoia Growth), and (ii) 996,092 shares held by Sequoia Capital USGF Principals Fund IV, LP (Sequoia Principals). SCGF IV Management, L.P. is the general partner of Sequoia Growth and Sequoia Principals. Mr. Leone, a member of our board of directors, is a Managing Member of SCGF IV Management, L.P. and may be deemed to share voting and investment power over these shares. The address for the entities affiliated with Sequoia Capital is 3000 Sand Hill Road, 4-250, Menlo Park, CA 94025.
- (3) Consists of 2,184,460 shares held by Greylock XIII Limited Partnership, 196,667 shares held by Greylock XIII-A Limited Partnership and 69,853 shares held by Greylock XIII Principals LLC. The address for the entities affiliated with Greylock is 1 Brattle Square, Cambridge, MA 02138.
- (4) Consists of (i) 200,000 shares held by the Sloodman Living Trust dated September 8, 1999, of which Mr. Sloodman is a co-trustee; and (ii) 4,712,842 shares subject to options held by Mr. Sloodman that are exercisable within 60 days of March 31, 2012, all of which are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. Sloodman's cessation of service prior to vesting.
- (5) Consists of (i) 1,500,000 shares held by the Luddy Family 2011 Dynasty Trust dated October 14, 2011 of which Mr. Luddy is a beneficiary and (ii) 240,000 shares subject to options held by Mr. Luddy that are exercisable within 60 days of March 31, 2012, of which 70,000 are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. Luddy's cessation of service prior to vesting, and (iii) 13,371,152 shares of common stock held by Mr. Luddy.
- (6) Consists of (i) 1,379,044 shares subject to options held by Mr. Scarpelli that are exercisable within 60 days of March 31, 2012, all of which are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. Scarpelli's cessation of service prior to vesting, and (ii) 275,808 shares of common stock held by Mr. Scarpelli.
- (7) Consists of 1,654,852 shares subject to options held by Mr. Schneider that are exercisable within 60 days of March 31, 2012, all of which are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. Schneider's cessation of service prior to vesting.
- (8) Consists of 1,350,000 shares subject to options held by Mr. Josefsberg that are exercisable within 60 days of March 31, 2012, all of which are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. Josefsberg's cessation of service prior to vesting.
- (9) Consists of 1,200,000 shares subject to options held by Mr. McGee that are exercisable within 60 days of March 31, 2012, all of which are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. McGee's cessation of service prior to vesting.
- (10) Consists of the shares referred to in footnote (1) above held by JMI Equity Fund V, L.P., JMI Equity Fund V (AI), L.P., JMI Equity Fund IV, L.P., JMI Equity Fund IV (AI), L.P., JMI Euro Equity Fund IV, L.P., and JMI Equity Side Fund, L.P.
- (11) Consists of 200,000 shares subject to options held by Mr. Codd that are exercisable within 60 days of March 31, 2012, of which 50,000 are unvested are early exercisable and would be subject to a right of repurchase in our favor upon Mr. Codd's cessation of service prior to vesting.
- (12) Consists of the shares referred to in footnote (2) above.

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- (13) Consists of (i) 100,000 shares held by the Miller Living Trust, dtd 7/7/85 of which Mr. Miller is co-trustee and (ii) 100,000 shares of common stock held by Mr. Miller.
- (14) Consists of the shares referred to in footnote (1) above.
- (15) Consists of 200,000 shares subject to options held by Mr. Strauss that are exercisable within 60 days of March 31, 2012, of which 145,834 are unvested and early exercisable and would be subject to a right of repurchase in our favor upon Mr. Strauss' cessation of service prior to vesting.
- (16) Consists of (i) 99,859,874 shares of common stock and (ii) 12,524,352 shares of common stock subject to options that are exercisable within 60 days of March 31, 2012.

## DESCRIPTION OF CAPITAL STOCK

### General

Upon the closing of this offering, our authorized capital stock will consist of 600,000,000 shares of common stock, \$0.001 par value per share, and 10,000,000 shares of preferred stock, \$0.001 par value per share. A description of the material terms and provisions of our restated certificate of incorporation and restated bylaws affecting the rights of holders of our capital stock is set forth below. The description is intended as a summary, and is qualified in its entirety by reference to the form of our restated certificate of incorporation and the form of our restated bylaws to be in effect upon the closing of this offering that will be filed as exhibits to the registration statement relating to this prospectus.

As of March 31, 2012, and after giving effect to the conversion of all of our outstanding preferred stock into common stock upon closing of this offering, there were:

- 111,289,770 shares of common stock outstanding held by approximately 137 stockholders;
- 36,958,079 shares of common stock issuable upon the exercise of outstanding options with a weighted-average exercise price of \$2.91 per share and 1,000,000 shares of common stock issuable pursuant to outstanding RSUs under our 2005 Stock Plan; and
- 4,300,809 shares of common stock available for future issuance under our 2005 Stock Plan.

### Common Stock

#### *Dividend Rights*

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and only then at the times and in the amounts that our board of directors may determine.

#### *Voting Rights*

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Our restated certificate of incorporation eliminates the right of stockholders to cumulate votes for the election of directors. Our restated certificate of incorporation to be in effect upon the closing of this offering will establish a classified board of directors, to be divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

#### *No Preemptive or Similar Rights*

Our common stock is not entitled to preemptive rights and is not subject to conversion, redemption or sinking fund provisions.

#### *Right to Receive Liquidation Distributions*

Upon our dissolution, liquidation or winding-up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

## **Preferred Stock**

Upon the closing of this offering, each currently outstanding share of preferred stock will be converted into common stock.

Upon the closing of this offering, we will be authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions. Our board of directors also can increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and may adversely affect the market price of our common stock and the voting and other rights of the holders of common stock. We have no current plan to issue any shares of preferred stock.

## **Equity Grants**

As of March 31, 2012, 36,958,079 shares of our common stock were issuable upon exercise of outstanding options and 1,000,000 shares of common stock were issuable pursuant to outstanding RSUs under our 2005 Stock Plan.

## **Registration Rights**

### ***Common and Preferred Stock***

According to the terms of our third amended and restated investor rights agreement entered into in November 2009, certain investors are entitled to demand, “piggyback” and Form S-3 registration rights. The stockholders who are a party to the investor rights agreement will hold an aggregate of 83,703,016 shares, or %, of our common stock upon the closing of this offering and the conversion of all existing series of our convertible preferred stock into shares of our common stock that are subject to the registration rights under that investor rights agreement. Such stockholders have waived their registration rights with respect to this offering.

*Demand Registration Rights.* At any time beginning on November 25, 2012, the holders of at least 40% of the shares having demand registration rights have the right to make up to two demands that we file a registration statement to register all or a portion of their shares so long as the aggregate number of securities requested to be sold under such registration statement is at least \$4,000,000, subject to specified exceptions.

*Form S-3 Registration Rights.* If we are eligible to file a registration statement on Form S-3, the holders of at least 40% of the shares having registration rights have the right to demand that we file a registration statement on Form S-3 so long as the aggregate value of the securities to be sold under the registration statement on Form S-3 is at least \$1,000,000, subject to specified exceptions.

*“Piggyback” Registration Rights.* If we register any securities for public sale, holders of registration rights are entitled to written notice of the registration and will have the right to include their shares in the registration statement. The underwriters of any offering will have the right to limit the number of shares having registration rights to be included in the registration statement, but not below 25% of the total number of shares included in the registration statement, unless such offering is our initial public offering and such registration does not include shares of any other selling stockholders, in which case any and all shares held by selling stockholders may be excluded from the offering.

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*Expenses of Registration.* Generally, we are required to bear all registration and selling expenses incurred in connection with the demand, piggyback and Form S-3 registrations described above, other than underwriting discounts and commissions, stock transfer taxes and fees of counsel for any holder other than the reasonable fees of a single special counsel for the holders of registration rights.

*Expiration of Registration Rights.* The demand, piggyback and Form S-3 registration rights discussed above will terminate four years following the closing of this offering. In addition, the registration rights discussed above will terminate with respect to any stockholder entitled to these registration rights on the date when such stockholder holds less than three percent of our common stock then outstanding and is able to sell all of its registrable common stock in a single 90-day period under Rule 144 of the Securities Act.

### **Anti-Takeover Provisions**

The provisions of Delaware law, our restated certificate of incorporation and our restated bylaws may have the effect of delaying, deferring or discouraging another person from acquiring control of our company.

#### ***Delaware Law***

We are governed by the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents some Delaware corporations, including us, from engaging, under some circumstances, in a business combination, which includes a merger or sale of at least 10% of the corporation's assets with any interested stockholder, meaning a stockholder who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of the corporation's outstanding voting stock, unless:

- the transaction is approved by the board of directors prior to the time that the interested stockholder became an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- at or subsequent to such time that the stockholder became an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

A Delaware corporation may "opt out" of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. We do not plan to "opt out" of these provisions. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

#### ***Restated Certificate of Incorporation and Restated Bylaw Provisions***

Our restated certificate of incorporation and our restated bylaws to be in effect upon the closing of this offering will include a number of provisions that may have the effect of deterring hostile takeovers or delaying or preventing changes in control, including the following:

- *Board of Directors Vacancies.* Our restated certificate of incorporation and restated bylaws will authorize only our board of directors to fill vacant directorships. In addition, the number of directors constituting our board of directors will be set only by resolution adopted by a majority vote of our entire board of directors. These provisions prevent a stockholder from increasing the size of our board



of directors and gaining control of our board of directors by filling the resulting vacancies with its own nominees.

- *Classified Board.* Our restated certificate of incorporation and restated bylaws will provide that our board of directors is classified into three classes of directors. The existence of a classified board could delay a successful tender offeror from obtaining majority control of our board of directors, and the prospect of that delay might deter a potential offeror.
- *Stockholder Action; Special Meeting of Stockholders.* Our restated certificate of incorporation will provide that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. Stockholders will not be permitted to cumulate their votes for the election of directors. Our restated bylaws will further provide that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our chief executive officer or our president.
- *Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our restated bylaws will provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders. Our restated bylaws also will specify certain requirements regarding the form and content of a stockholder's notice. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders.
- *Issuance of Undesignated Preferred Stock.* Our board of directors will have the authority, without further action by the stockholders, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.
- *Super Majority Vote to Amend Certificate of Incorporation and Bylaws.* Our restated certificate of incorporation will provide that if two-thirds of our board of directors approves the amendment of our certificate of incorporation and bylaws, or any provisions thereof, then such amendment need only be approved by stockholders holding a majority of our outstanding shares of common stock entitled to vote. Otherwise, such amendment must be approved by stockholders holding two-thirds of our outstanding shares of common stock entitled to vote.

#### **New York Stock Exchange Listing**

We have applied for the listing of our common stock on the New York Stock Exchange under the symbol "NOW."

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Wells Fargo Shareowner Services.

## SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there has not been a public market for shares of our common stock. Future sales of substantial amounts of shares of our common stock, including shares issued upon the exercise of outstanding options, in the public market after this offering, or the possibility of these sales occurring, could cause the prevailing market price for our common stock to fall or impair our ability to raise equity capital in the future.

Upon the closing of this offering, a total of \_\_\_\_\_ shares of common stock will be outstanding, assuming 111,289,770 shares outstanding as of March 31, 2012 and that there are no exercises of options after March 31, 2012. Of these shares, all \_\_\_\_\_ shares of common stock sold in this offering by us and the selling stockholders will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by “affiliates,” as that term is defined in Rule 144 under the Securities Act.

The remaining \_\_\_\_\_ shares of common stock will be “restricted securities,” as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which are summarized below.

As a result of the lock-up agreements described below and subject to the provisions of Rules 144 and 701 under the Securities Act, these restricted securities will be available for sale in the public market as follows:

- on the date of this prospectus, \_\_\_\_\_ of the shares will be available for sale in the public market without restriction; and
- beginning 181 days after the date of this prospectus, subject to extension as described in “Underwriting,” \_\_\_\_\_ shares will become eligible for sale in the public market, of which \_\_\_\_\_ shares will be freely tradable under Rules 144 and 701, and \_\_\_\_\_ shares will be freely tradable, subject to the limitations under Rules 144 and 701, of which \_\_\_\_\_ shares will be unvested and subject to our right of repurchase.

In addition, of the 36,958,079 shares of our common stock that were subject to stock options outstanding as of March 31, 2012, options to purchase 7,449,076 shares of common stock were vested as of March 31, 2012 and will be eligible for sale 181 days following the effective date of this prospectus, subject to extension as described in “Underwriting.”

### Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person is entitled to sell those shares without complying with any of the requirements of Rule 144.

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In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon the expiration of the lock-up agreements described below, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately                      shares immediately after the offering, or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

### **Rule 701**

In general, under Rule 701 as currently in effect, any of our employees, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement in a transaction before the effective date of this offering that was completed in reliance on Rule 701 and complied with the requirements of Rule 701 will, subject to the lock-up restrictions described below, be eligible to resell such shares 90 days after the date of this prospectus in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

### **Lock-Up Agreements**

We and each of our directors, officers and the holders of substantially all of our capital stock have agreed to the lock-up provisions described under “Underwriting.”

### **Registration Rights**

Upon the closing of this offering, the holders of an aggregate of 83,703,016 shares of our common stock, or their permitted transferees, will be entitled to rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration statement, except for shares purchased by affiliates. See “Description of Capital Stock—Registration Rights” for additional information.

### **Registration Statements**

We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of common stock subject to equity grants outstanding and reserved for issuance under our stock plans. We expect to file this registration statement as soon as practicable after this offering. However, none of the shares registered on Form S-8 will be eligible for resale until the expiration of the lock-up agreements to which they are subject.

**CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS  
FOR NON-U.S. HOLDERS OF COMMON STOCK**

This section summarizes certain United States federal income tax considerations relating to the ownership and disposition of common stock for a non-U.S. holder (as defined below). This summary does not provide a complete analysis of all potential tax considerations. The information provided below is based upon provisions of the Code, and Treasury regulations promulgated thereunder, administrative rulings and judicial decisions currently in effect. These authorities may change at any time, possibly on a retroactive basis, or the Internal Revenue Service, or IRS, might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of common stock could differ from those described below. For purposes of this summary, a “non-U.S. holder” is any holder other than an entity taxable as a partnership for United States federal income tax purposes or:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized under the laws of the United States, any state or the District of Columbia;
- a trust that is (1) subject to the primary supervision of a United States court and one of more United States persons have authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or
- an estate whose income is subject to United States income tax regardless of source.

If you are a non-U.S. citizen that is an individual, you may, in many cases, be deemed to be a resident alien, as opposed to a nonresident alien, by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For these purposes, all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted. Resident aliens are subject to United States federal income tax as if they were United States citizens. Such an individual is urged to consult his or her own tax advisor regarding the United States federal income tax consequences of the sale, exchange of other disposition of common stock. If a partnership or other pass-through entity is a beneficial owner of common stock, the tax treatment of a partner in the partnership or an owner of the entity will depend upon the status of the partner or other owner and the activities of the partnership or other entity. Any partner in a partnership or member in a pass-through entity holding shares of our common stock should consult its own tax advisor.

This discussion assumes that a non-U.S. holder will hold our common stock as a capital asset (generally, property held for investment). This summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances, or because they are subject to special rules, including, without limitation, if the investor is a United States expatriate, “controlled foreign corporation,” “passive foreign investment company,” corporation that accumulates earnings to avoid United States federal income tax, dealer in securities or currencies, financial institution, regulated investment company, real estate investment trust, tax-exempt entity, insurance company, person holding our common stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, trader in securities that elects to use a mark-to-market method of accounting, person liable for the alternative minimum tax, person whose functional currency is other than the U.S. dollar, person who acquired our common stock as compensation for services, and partner or beneficial owner in a pass-through entity. Finally, this summary does not describe the effects of any applicable foreign, state or local laws, or, except to the extent discussed below, the effects of any applicable gift or estate tax laws.

INVESTORS CONSIDERING THE PURCHASE OF OUR COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE UNITED STATES FEDERAL

## INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF FOREIGN, STATE OR LOCAL LAWS, AND TAX TREATIES.

### Dividends

We do not expect to declare or pay any dividends on our common stock in the foreseeable future. If we do pay dividends on shares of our common stock, however, such distributions will constitute dividends for United States federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will constitute a return of capital that is applied against and reduces, but not below zero, a non-U.S. holder's adjusted tax basis in shares of our common stock. Any remaining excess will be treated as gain realized on the sale or other disposition of our common stock. See "—Sale of Common Stock."

Any dividend paid to a non-U.S. holder on our common stock will generally be subject to United States withholding tax at a 30% rate. The withholding tax might not apply, however, or might apply at a reduced rate, under the terms of an applicable income tax treaty between the United States and the non-U.S. holder's country of residence. You should consult your tax advisors regarding your entitlement to benefits under a relevant income tax treaty. Generally, in order for us or our paying agent to withhold tax at a lower treaty rate, a non-U.S. holder must certify its entitlement to treaty benefits. A non-U.S. holder generally can meet this certification requirement by providing a Form W-8BEN (or any successor form) or appropriate substitute form to us or our paying agent. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the holder's behalf, the holder will be required to provide appropriate documentation to the agent. The holder's agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. For payments made to a foreign partnership or other pass-through entity, the certification requirements generally apply to the partners or other owners rather than to the partnership or other entity, and the partnership or other entity must provide the partners' or other owners' documentation to us or our paying agent. If you are eligible for a reduced rate of United States federal withholding tax under an income tax treaty, you may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS in a timely manner.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder, or, if an income tax treaty between the United States and the non-U.S. holder's country of residence applies, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States, are not subject to such withholding tax. To obtain this exemption, a non-U.S. holder must provide us with an IRS Form W-8ECI properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are generally taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition to the graduated tax described above, dividends received by corporate non-U.S. holders that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.

### Sale of Common Stock

Non-U.S. holders will generally not be subject to United States federal income tax on any gains realized on the sale, exchange or other disposition of common stock unless:

- the gain (1) is effectively connected with the conduct by the non-U.S. holder of a United States trade or business and (2) if required by an applicable income tax treaty between the United States and the non-U.S. holder's country of residence applies, the gain is attributable to a permanent establishment (or, in the case of an individual, a fixed base) maintained by the non-U.S. holder in the United States (in which case the special rules described below apply);
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition of our common stock, and certain other

requirements are met (in which case the gain would be subject to a flat 30% tax, or such reduced rate as may be specified by an applicable income tax treaty, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States); or

- the rules of the Foreign Investment in Real Property Tax Act, or FIRPTA, treat the gain as effectively connected with a United States trade or business.

The FIRPTA rules may apply to a sale, exchange or other disposition of our common stock if we are, or were within the shorter of the five-year period preceding the disposition and the non-U.S. holder's holding period a "U.S. real property holding corporation," or USRPHC. In general, we would be a USRPHC if interests in United States real estate comprised at least half of our business assets. We do not believe that we are a USRPHC and we do not anticipate becoming one in the future. Even if we become a USRPHC, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as United States real property interests only if a non-U.S. holder actually owns or constructively holds more than 5% of our outstanding common stock.

If any gain from the sale, exchange or other disposition of common stock, (1) is effectively connected with a United States trade or business conducted by a non-U.S. holder and (2) if an income tax treaty between the United States and the non-U.S. holder's country of residence applies, is attributable to a permanent establishment (or, in the case of an individual, a fixed base) maintained by such non-U.S. holder in the United States, then the gain generally will be subject to United States federal income tax at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. If the non-U.S. holder is a corporation, under certain circumstances, that portion of its earnings and profits that is effectively connected with its United States trade or business, subject to certain adjustments, generally would be subject to a "branch profits tax." The branch profits tax rate is generally 30%, although an applicable income tax treaty between the United States and the non-U.S. holder's country of residence might provide for a lower rate.

### **United States Federal Estate Tax**

The estates of nonresident alien individuals generally are subject to United States federal estate tax on property with a United States situs. Because we are a United States corporation, our common stock will be United States situs property and therefore will be included in the taxable estate of a nonresident alien decedent, unless an applicable tax treaty between the United States and the decedent's country of residence provides otherwise.

### **Backup Withholding and Information Reporting**

The Code and the Treasury regulations require those who make specified payments to report the payments to the IRS. Among the specified payments are dividends and proceeds paid by brokers to their customers. The required information returns enable the IRS to determine whether the recipient properly included the payments in income. This reporting regime is reinforced by "backup withholding" rules. These rules require the payors to withhold tax from payments subject to information reporting if the recipient fails to cooperate with the reporting regime by failing to provide his taxpayer identification number to the payor, furnishing an incorrect identification number, or failing to report interest or dividends on his returns. The backup withholding tax rate is currently 28% for all payments made through December 31, 2012. The backup withholding rules do not apply to payments to corporations, whether domestic or foreign, provided that they establish such exemption.

Payments to non-U.S. holders of dividends on common stock generally will not be subject to backup withholding, and payments of proceeds made to non-U.S. holders by a broker upon a sale of common stock will not be subject to information reporting or backup withholding, in each case so long as the non-U.S. holder certifies its nonresident status (and we or our paying agent do not have actual knowledge or reason to know the holder is a United States person or that the conditions of any other exemption are not, in fact, satisfied) or

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otherwise establishes an exemption. The provision of a properly executed Form W-8BEN will generally satisfy the certification requirements necessary to avoid the backup withholding tax as well. We must report annually to the IRS any dividends paid to each non-U.S. holder and the tax withheld, if any, with respect to these dividends. Copies of these reports may be made available to tax authorities in the country where the non-U.S. holder resides.

Under the Treasury regulations, the payment of proceeds from the disposition of shares of our common stock by a non-U.S. holder made to or through a United States office of a broker generally will be subject to information reporting and backup withholding unless the beneficial owner certifies, under penalties of perjury, among other things, its status as a non-U.S. holder (and we or our paying agent do not have actual knowledge or reason to know the holder is a United States person) or otherwise establishes an exemption. The payment of proceeds from the disposition of shares of our common stock by a non-U.S. holder made to or through a non-United States office of a broker generally will not be subject to backup withholding and information reporting, except as noted below. Information reporting, but not backup withholding, will apply to a payment of proceeds, even if that payment is made outside of the United States, if you sell our common stock through a non-United States office of a broker that is:

- a United States person (including a foreign branch or office of such person);
- a “controlled foreign corporation” for United States federal income tax purposes;
- a foreign person 50% or more of whose gross income from certain periods is effectively connected with a United States trade or business; or
- a foreign partnership if at any time during its tax year (a) one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interests of the partnership or (b) the foreign partnership is engaged in a United States trade or business;

unless the broker has documentary evidence that the beneficial owner is a non-U.S. holder and certain other conditions are satisfied, or the beneficial owner otherwise establishes an exemption (and the broker has no actual knowledge or reason to know to the contrary).

Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder of common stock under the backup withholding rules can be credited against any United States federal income tax liability of the holder and may entitle the holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

### **Foreign Account Tax Compliance Act**

Recent legislation will impose withholding at a rate of 30% on payments to certain foreign entities of dividends on and the gross proceeds of dispositions of U.S. common stock, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied. The withholding would apply to payments of dividends on U.S. common stock beginning January 1, 2014 and to gross proceeds from dispositions of U.S. common stock beginning January 1, 2015. Non-U.S. holders should consult their tax advisors regarding the possible implications of this legislation on their investment in our common stock.

THE PRECEDING DISCUSSION OF UNITED STATES FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

## UNDERWRITING

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. LLC is acting as representative, have severally agreed to purchase, and we have agreed to sell to them the number of shares indicated below:

<u>Name</u>	<u>Number of Shares</u>
Morgan Stanley & Co. LLC	
Citigroup Global Markets, Inc.	
Deutsche Bank Securities Inc.	
Barclays Capital Inc.	
Credit Suisse Securities (USA) LLC	
UBS Securities LLC	
Pacific Crest Securities LLC	
Wells Fargo Securities, LLC	
Total	

The underwriters are offering the shares of common stock subject to their acceptance of the shares and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part. In addition, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We and the selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares of common stock as the number of shares listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.



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The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional shares of common stock from us and the selling stockholders.

	Total		
	Per Share	No Exercise	Full Exercise
Public offering price	\$	\$	\$
Underwriting discounts and commissions to be paid by:	\$	\$	\$
Us	\$	\$	\$
The selling stockholders	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$
Proceeds, before expenses, to selling stockholders	\$	\$	\$

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately \$ .

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

We have applied to list our common stock on the New York Stock Exchange under the trading symbol "NOW."

We have agreed that, without the prior written consent of Morgan Stanley & Co. LLC on behalf of the underwriters, we will not, during the period ending 180 days after the date of this prospectus, subject to certain exceptions:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- file any registration statement with the SEC relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock;

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period we issue an earnings release or a material news event relating to us occurs; or
- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period;

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

All of our officers and directors and the holders of substantially all of our capital stock have entered into lock-up agreements with us which provide that they will not offer, sell or transfer any shares of our common

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stock beneficially owned by them for 180 days, subject in certain cases to extension under certain circumstances, following the date of this prospectus. We have agreed with Morgan Stanley & Co. LLC not to waive these lock-up restrictions without their prior consent.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time. The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

We, the selling stockholders and the underwriters have agreed to severally indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors. We cannot assure you that the prices at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our common stock will develop and continue after this offering.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they received or will receive customary fees and expenses. Certain of the underwriters or their affiliates are lenders under our credit facility.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and publish or express

independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and short positions in such securities and instruments.

### **Pricing of the Offering**

Prior to this offering, there has been no public market for the shares of common stock. The initial public offering price will be determined by negotiations between us and the representative. Among the factors to be considered in determining the initial public offering price will be our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to ours.

### **Selling Restrictions**

#### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, or Relevant Member State, an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

#### ***United Kingdom***

This prospectus and any other material in relation to the shares described herein is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospective Directive, or qualified investors, that also (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, (ii) who fall within Article 49(2)(a) to (d) of the Order or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). The shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such shares will be engaged in only with, relevant persons. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by

recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus or any of its contents.

### ***Hong Kong***

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571 Laws of Hong Kong) and any rules made thereunder.

### ***Singapore***

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

### ***Japan***

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Notice to Prospective Investors in Switzerland***

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document has been

prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, our company, or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the shares.

***Notice to Prospective Investors in the Dubai International Financial Centre***

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or DFSA. This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

## LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Fenwick & West LLP, Mountain View, California. Cooley LLP, Palo Alto, California, is acting as counsel to the underwriters.

## CHANGE IN ACCOUNTANTS

On February 4, 2011, we retained PricewaterhouseCoopers LLP as our independent registered public accounting firm. Our independent registered public accounting firm was previously Grant Thornton LLP. The decision to dismiss Grant Thornton LLP and appoint PricewaterhouseCoopers LLP was approved by our audit committee on December 3, 2010. Subsequent to their appointment, we engaged PricewaterhouseCoopers LLP to reaudit our consolidated financial statements as of June 30, 2009 and 2010, and for each of the two years in the period then ended, which had previously been audited by Grant Thornton LLP.

The reports of Grant Thornton LLP on our consolidated financial statements did not contain any adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles. We had no disagreements with Grant Thornton LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to its satisfaction, would have caused Grant Thornton LLP to make reference in connection with its opinion to the subject matter of the disagreement during its audits of the years ended June 30, 2010 and 2009 or the subsequent interim period through December 3, 2010. During the two most recent fiscal years preceding our discharge of Grant Thornton LLP, and the subsequent interim period through December 3, 2010, there were no “reportable events” as such term is defined in Item 304(a)(1)(v) of Regulation S-K.

During the two years ended June 30, 2010 and through the period ended February 4, 2011, we did not consult with PricewaterhouseCoopers LLP on matters that involved the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on our financial statements or any other matter that was the subject of a disagreement as that term is used in Item 304 (a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K or a reportable event as that term is used in Item 304(a)(1)(v) and the related instructions to Item 304 of Regulation S-K.

## EXPERTS

The consolidated financial statements as of June 30, 2010 and 2011 and December 31, 2011, for each of the three fiscal years in the period ended June 30, 2011 and for the six months ended December 31, 2011 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits filed therewith. For further information about us and the common stock offered hereby, reference is made to the registration statement and the exhibits filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. We currently do not file periodic reports with the SEC. Upon closing of this offering, we will be required to file periodic reports, proxy statements and other information with the SEC pursuant to the Exchange Act. A copy of the registration statement and the exhibits filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, NE, Washington, DC 20549, and copies of all or any part of the registration statement may be obtained from that office. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is [www.sec.gov](http://www.sec.gov).

SERVICENOW, INC.  
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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of ServiceNow, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income (loss), changes in convertible preferred stock and stockholders' deficit, and cash flows present fairly, in all material respects, the financial position of ServiceNow, Inc. (formerly Service-now.com) and its subsidiaries at December 31, 2011, June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011 and the six months ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for multiple element revenue arrangements beginning July 1, 2010.

/s/ **PricewaterhouseCoopers LLP**

San Diego, California

March 30, 2012, except for Note 18, "Subsequent Events," as to which the date is May 23, 2012.



**SERVICENOW, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share and per share data)*

	June 30,		December 31,	March 31,	Pro forma as of March 31,
	2010	2011	2011	2012	2012
	(Unaudited)				
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 29,402	\$ 59,853	\$ 68,088	\$ 80,140	\$ 80,140
Restricted cash	395	45	45	37	37
Short-term investments	—	—	—	15,344	15,344
Accounts receivable	9,732	24,495	44,860	42,894	42,894
Current portion of deferred commissions	2,267	3,922	6,087	7,594	7,594
Prepaid expenses and other current assets	5,696	8,578	9,883	5,768	5,768
Current portion of deferred tax assets	—	—	1,544	1,544	1,544
Total current assets	47,492	96,893	130,507	153,321	153,321
Deferred commissions, less current portion	2,052	1,941	4,597	6,010	6,010
Property and equipment, net	1,698	9,467	20,695	24,091	24,091
Other assets	127	445	524	1,576	1,576
Total assets	<u>\$ 51,369</u>	<u>\$108,746</u>	<u>\$ 156,323</u>	<u>\$ 184,998</u>	<u>\$ 184,998</u>
<b>Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)</b>					
Current liabilities:					
Accounts payable	\$ 1,570	\$ 2,098	\$ 9,411	\$ 7,089	\$ 7,089
Accrued expenses and other current liabilities	12,729	18,584	25,608	28,102	28,102
Current portion of deferred revenue	31,282	66,894	91,087	97,546	97,546
Current portion of deferred rent	113	410	455	435	435
Total current liabilities	45,694	87,986	126,561	133,172	133,172
Deferred revenue, less current portion	9,449	7,752	13,549	18,211	18,211
Deferred rent, less current portion	249	3,132	2,935	2,903	2,903
Other long-term liabilities	12	397	2,532	2,583	2,583
Total liabilities	<u>55,404</u>	<u>99,267</u>	<u>145,577</u>	<u>156,869</u>	<u>156,869</u>
Commitments and contingencies					
Convertible preferred stock:					
Series C redeemable convertible preferred stock, \$0.001 par value; 983,606 shares authorized, issued and outstanding; liquidation preference of \$6,000 at March 31, 2012	5,930	5,948	5,957	5,962	—
Series A redeemable convertible preferred stock, \$0.001 par value; 2,500,000 shares authorized, issued and outstanding; liquidation preference of \$3,855 at March 31, 2012	3,504	3,704	3,805	3,855	—
Series B redeemable convertible preferred stock, \$0.001 par value; 4,040,488 shares authorized; 3,988,636 shares issued and outstanding; liquidation preference of \$7,265 at March 31, 2012	6,548	6,963	7,165	7,265	—
Series D convertible preferred stock, \$0.001 par value; 3,830,379 shares authorized; 2,990,635 shares issued and outstanding; liquidation preference of \$51,640 at March 31, 2012	51,245	51,245	51,245	51,245	—
Stockholders' equity (deficit):					
Common stock \$0.001 par value; 200,000,000 shares authorized; 16,493,488, 20,772,944, 22,229,978, and 27,586,754 shares issued and outstanding at June 30, 2010 and 2011, December 31, 2011, and March 31, 2012, respectively; 111,289,770 shares issued and outstanding pro forma	16	21	22	28	111
Additional paid-in capital	—	2,936	9,793	32,783	101,027
Accumulated other comprehensive income	8	118	899	771	771
Accumulated deficit	<u>(71,286)</u>	<u>(61,456)</u>	<u>(68,140)</u>	<u>(73,780)</u>	<u>(73,780)</u>
Total stockholders' equity (deficit)	<u>(71,262)</u>	<u>(58,381)</u>	<u>(57,426)</u>	<u>(40,198)</u>	<u>28,129</u>
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	<u>\$ 51,369</u>	<u>\$108,746</u>	<u>\$ 156,323</u>	<u>\$ 184,998</u>	<u>\$ 184,998</u>

*See accompanying notes to consolidated financial statements*

**SERVICENOW, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
*(in thousands, except share and per share data)*

	Fiscal Years Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010 (Unaudited)	2011	2011 (Unaudited)	2012 (Unaudited)
Revenues:							
Subscription	\$ 17,841	\$ 40,078	\$ 79,191	\$ 33,191	\$ 64,886	\$ 21,224	\$ 39,541
Professional services and other	1,474	3,251	13,450	4,753	8,489	3,988	7,890
Total revenues	19,315	43,329	92,641	37,944	73,375	25,212	47,431
Cost of revenues <sup>(1)</sup> :							
Subscription	3,140	6,378	15,311	6,096	15,073	4,451	11,012
Professional services and other	4,711	9,812	16,264	6,778	12,850	4,763	10,224
Total cost of revenues	7,851	16,190	31,575	12,874	27,923	9,214	21,236
Gross profit	11,464	27,139	61,066	25,070	45,452	15,998	26,195
Operating expenses <sup>(1)</sup> :							
Sales and marketing	8,499	19,334	34,123	13,728	32,501	8,309	19,307
Research and development	2,433	7,194	7,004	2,758	7,030	1,885	6,043
General and administrative	6,363	28,810	9,379	3,417	10,084	2,680	6,427
Total operating expenses	17,295	55,338	50,506	19,903	49,615	12,874	31,777
Income (loss) from operations	(5,831)	(28,199)	10,560	5,167	(4,163)	3,124	(5,582)
Interest and other income (expense), net	(27)	(1,226)	606	289	(1,446)	252	492
Income (loss) before provision for income taxes	(5,858)	(29,425)	11,166	5,456	(5,609)	3,376	(5,090)
Provision for income taxes	48	280	1,336	653	1,075	385	550
Net income (loss)	(5,906)	(29,705)	9,830	4,803	(6,684)	2,991	(5,640)
Net income (loss) per share attributable to common stockholders:							
Basic	\$ (0.17)	\$ (1.31)	\$ 0.09	\$ 0.04	\$ (0.33)	\$ 0.03	\$ (0.23)
Diluted	\$ (0.17)	\$ (1.31)	\$ 0.08	\$ 0.04	\$ (0.33)	\$ 0.03	\$ (0.23)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:							
Basic	39,039,066	23,157,576	18,163,977	17,156,445	21,104,219	18,702,229	25,123,582
Diluted	39,039,066	23,157,576	28,095,486	27,622,357	21,104,219	28,368,105	25,123,582
Pro forma net income (loss) per share attributable to common stockholders (unaudited):							
Basic			\$ 0.09		\$ (0.06)		\$ (0.05)
Diluted			\$ 0.09		\$ (0.06)		\$ (0.05)
Pro forma weighted-average shares used to compute pro forma net income (loss) per share attributable to common stockholders (unaudited):							
Basic			103,617,973		106,558,215		108,826,598
Diluted			113,633,033		106,558,215		108,826,598
Other comprehensive income (loss), before tax:							
Foreign currency translation adjustments	\$ 50	\$ (43)	\$ 167	\$ (49)	\$ 807	\$ 228	\$ (68)
Provision for (benefit from) income taxes	18	(15)	57	(14)	26	—	60
Other comprehensive income (loss), net of tax	32	(28)	110	(35)	781	228	(128)
Comprehensive income (loss)	\$ (5,874)	\$ (29,733)	\$ 9,940	\$ 4,768	\$ (5,903)	\$ 3,219	\$ (5,768)

*See accompanying notes to consolidated financial statements*

**SERVICENOW, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)** (continued)  
*(in thousands, except share and per share data)*

(1) Includes stock-based compensation as follows:

	<b>Fiscal Years Ended June 30,</b>			<b>Six Months Ended December 31,</b>		<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>	<b>2012</b>
				<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Cost of revenues:							
Subscription	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 156	\$ 532
Professional services and other	11	28	117	37	193	38	192
Sales and marketing	45	277	1,004	431	2,010	288	1,471
Research and development	50	90	468	207	704	143	661
General and administrative	15	102	817	221	2,056	130	1,062

*See accompanying notes to consolidated financial statements*

**SERVICENOW, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT**

*(in thousands, except shares)*

	Series C Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series D Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance at June 30, 2008</b>	—	\$ —	2,500,000	\$ 3,092	3,988,636	\$ 5,718	—	\$ —	40,487,504	\$ 40	\$ —	\$ (13,156)	\$ 4	\$ (13,112)
Stock option exercises	—	—	—	—	—	—	—	—	348,328	1	6	—	—	7
Buyback and retirement of common stock	—	—	—	—	—	—	—	—	(7,868,848)	(8)	(133)	(2,072)	—	(2,213)
Issuance of series C redeemable convertible preferred stock, net of \$93 issuance costs	983,606	5,907	—	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	127	—	—	127
Accretion of preferred stock dividends and issuance costs	—	4	—	206	—	415	—	—	—	—	—	(625)	—	(625)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	32	32
Net loss	—	—	—	—	—	—	—	—	—	—	—	(5,906)	—	(5,906)
<b>Balance at June 30, 2009</b>	<u>983,606</u>	<u>\$ 5,911</u>	<u>2,500,000</u>	<u>\$ 3,298</u>	<u>3,988,636</u>	<u>\$ 6,133</u>	<u>—</u>	<u>\$ —</u>	<u>32,966,984</u>	<u>\$ 33</u>	<u>\$ —</u>	<u>\$ (21,759)</u>	<u>\$ 36</u>	<u>\$ (21,690)</u>
Stock option exercises	—	\$ —	—	\$ —	—	\$ —	—	\$ —	7,036,768	\$ 7	\$ 234	\$ —	\$ —	\$ 241
Buyback and retirement of common stock	—	—	—	—	—	—	—	—	(23,510,264)	(24)	(779)	(19,182)	—	(19,985)
Issuance of series D convertible preferred stock, net of \$395 issuance costs	—	—	—	—	—	—	2,990,635	51,245	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	545	—	—	545
Accretion of preferred stock dividends and issuance costs	—	19	—	206	—	415	—	—	—	—	—	(640)	—	(640)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	—	—	(28)	(28)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(29,705)	—	(29,705)
<b>Balance at June 30, 2010</b>	<u>983,606</u>	<u>\$ 5,930</u>	<u>2,500,000</u>	<u>\$ 3,504</u>	<u>3,988,636</u>	<u>\$ 6,548</u>	<u>2,990,635</u>	<u>\$ 51,245</u>	<u>16,493,488</u>	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ (71,286)</u>	<u>\$ 8</u>	<u>\$ (71,262)</u>

**SERVICENOW, INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT** (continued)

*(in thousands, except shares)*

	Series C Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Stock option exercises	—	—	—	—	—	—	—	—	4,279,456	5	441	—	—	446
Tax benefit from exercise of nonqualified stock options	—	—	—	—	—	—	—	—	—	—	138	—	—	138
Vesting of early exercised stock options	—	—	—	—	—	—	—	—	—	—	36	—	—	36
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	2,954	—	—	2,954
Accretion of preferred stock dividends and issuance costs	—	18	—	200	—	415	—	—	—	—	(633)	—	—	(633)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	110	110
Net income	—	—	—	—	—	—	—	—	—	—	—	9,830	—	9,830
<b>Balance at June 30, 2011</b>	<b>983,606</b>	<b>\$ 5,948</b>	<b>2,500,000</b>	<b>\$ 3,704</b>	<b>3,988,636</b>	<b>\$ 6,963</b>	<b>2,990,635</b>	<b>\$ 51,245</b>	<b>20,772,944</b>	<b>\$ 21</b>	<b>\$ 2,936</b>	<b>\$ (61,456)</b>	<b>\$ 118</b>	<b>\$ (58,381)</b>
Stock option exercises	—	\$ —	—	\$ —	—	\$ —	—	\$ —	1,469,118	\$ 1	\$ 1,283	\$ —	\$ —	\$ 1,284
Tax benefit from exercise of nonqualified stock options	—	—	—	—	—	—	—	—	—	—	41	—	—	41
Vesting of early exercised stock options	—	—	—	—	—	—	—	—	—	—	208	—	—	208
Buyback of restricted common stock	—	—	—	—	—	—	—	—	(12,084)	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	5,637	—	—	5,637
Accretion of preferred stock dividends and issuance costs	—	9	—	101	—	202	—	—	—	—	(312)	—	—	(312)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	781	781
Net loss	—	—	—	—	—	—	—	—	—	—	—	(6,684)	—	(6,684)
<b>Balance at December 31, 2011</b>	<b>983,606</b>	<b>\$ 5,957</b>	<b>2,500,000</b>	<b>\$ 3,805</b>	<b>3,988,636</b>	<b>\$ 7,165</b>	<b>2,990,635</b>	<b>\$ 51,245</b>	<b>22,229,978</b>	<b>\$ 22</b>	<b>\$ 9,793</b>	<b>\$ (68,140)</b>	<b>\$ 899</b>	<b>\$ (57,426)</b>

**SERVICENOW, INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT** (continued)

*(in thousands, except shares)*

	Series C Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Stock option exercises (unaudited)	—	—	—	—	—	—	—	—	3,712,462	4	1,297	—	—	1,301
Issuance of common stock, net of \$12 issuance costs (unaudited)	—	—	—	—	—	—	—	—	1,750,980	2	17,846	—	—	17,848
Tax benefit from exercise of nonqualified stock options (unaudited)	—	—	—	—	—	—	—	—	—	—	960	—	—	960
Vesting of early exercised stock options (unaudited)	—	—	—	—	—	—	—	—	—	—	115	—	—	115
Buyback and retirement of common stock (unaudited)	—	—	—	—	—	—	—	—	(106,666)	—	(1,069)	—	—	(1,069)
Stock-based compensation (unaudited)	—	—	—	—	—	—	—	—	—	—	3,995	—	—	3,995
Accretion of preferred stock dividends and issuance costs (unaudited)	—	5	—	50	—	100	—	—	—	—	(154)	—	—	(154)
Other comprehensive loss (unaudited)	—	—	—	—	—	—	—	—	—	—	—	—	(128)	(128)
Net loss (unaudited)	—	—	—	—	—	—	—	—	—	—	—	(5,640)	—	(5,640)
<b>Balance at March 31, 2012</b>	<b>983,606</b>	<b>\$ 5,962</b>	<b>2,500,000</b>	<b>\$ 3,855</b>	<b>3,988,636</b>	<b>\$ 7,265</b>	<b>2,990,635</b>	<b>\$ 51,245</b>	<b>27,586,754</b>	<b>\$ 28</b>	<b>\$ 32,783</b>	<b>\$ (73,780)</b>	<b>\$ 771</b>	<b>\$ (40,198)</b>

*See accompanying notes to consolidated financial statements*

**SERVICENOW, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	Fiscal Years Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010	2011	2011	2012
				(Unaudited)		(Unaudited)	
<b>Cash flows from operating activities:</b>							
Net income (loss)	\$ (5,906)	\$ (29,705)	\$ 9,830	\$ 4,803	\$ (6,684)	\$ 2,991	\$ (5,640)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:							
Depreciation	164	369	1,472	502	2,045	406	2,047
Amortization of deferred commissions	458	2,189	4,023	1,642	3,492	1,105	2,343
Stock-based compensation	127	545	2,954	1,121	5,637	755	3,918
Tax benefit from exercise of stock options	—	—	(138)	(117)	(41)	(43)	(960)
Expense for preferred stock warrants	61	702	—	—	—	—	—
Bad debt	5	64	—	—	—	—	—
(Gain) Loss on disposal of property and equipment	—	—	60	—	72	60	(1)
Changes in operating assets and liabilities:							
Accounts receivable	(1,981)	(5,176)	(14,762)	(7,631)	(20,365)	(8,502)	2,058
Deferred commissions	(1,694)	(5,271)	(5,568)	(2,180)	(8,313)	(1,541)	(5,253)
Prepaid expenses and other current assets	(778)	(4,851)	(2,872)	(560)	(1,355)	(1,547)	4,172
Other assets	97	(91)	(308)	(88)	(90)	(215)	(74)
Accounts payable	191	912	254	(845)	1,490	932	1,433
Accrued expenses and other current liabilities	2,443	8,901	5,438	1,569	6,921	2,632	1,065
Deferred rent	62	(85)	3,179	(57)	(151)	2,673	(51)
Deferred revenue	6,911	23,953	33,915	12,557	29,990	14,382	11,022
Other long-term liabilities	—	12	(9)	(5)	572	(2)	—
Net cash provided by (used in) operating activities	160	(7,532)	37,468	10,711	13,220	14,086	16,079
<b>Cash flows from investing activities:</b>							
Purchase of property and equipment	(327)	(1,584)	(8,733)	(2,057)	(7,959)	(3,826)	(8,558)
Purchases of investments	—	—	—	—	—	—	(15,344)
Restricted cash	(524)	129	350	200	—	150	8
Net cash used in investing activities	(851)	(1,455)	(8,383)	(1,857)	(7,959)	(3,676)	(23,894)
<b>Cash flows from financing activities:</b>							
Proceeds from exercise of stock options	7	241	446	105	1,284	91	1,301
Proceeds from early exercise of stock options	—	—	643	—	844	431	887
Tax benefit from exercise of stock options	—	—	138	117	41	43	960
Net proceeds from issuance of convertible preferred stock	5,907	51,245	—	—	—	—	—
Net proceeds from issuance of common stock	—	—	—	—	—	—	17,848
Purchase of common stock and restricted stock from stockholders	(2,213)	(20,814)	—	—	(15)	—	(1,069)
Net cash provided by financing activities	3,701	30,672	1,227	222	2,154	565	19,927
Foreign currency effect on cash	6	(71)	139	(21)	820	241	(60)
Net increase in cash and cash equivalents	3,016	21,614	30,451	9,055	8,235	11,216	12,052
Cash at beginning of period	4,772	7,788	29,402	29,402	59,853	38,457	68,088
Cash and cash equivalents at end of period	\$ 7,788	\$ 29,402	\$ 59,853	\$ 38,457	\$ 68,088	\$ 49,673	\$ 80,140
<b>Supplemental disclosures of other cash flow information:</b>							
Interest paid	\$ 4	\$ 10	\$ 5	\$ 1	\$ —	\$ —	\$ 2
Taxes paid	5	4	1,403	—	360	—	1,067
<b>Non-cash investing and financing activities:</b>							
Property and equipment included in accounts payable and accrued expenses	\$ 7	\$ 196	\$ 756	\$ 369	\$ 6,296	\$ 910	\$ 3,078
Property and equipment acquired under capital leases	—	25	—	—	—	—	—
Vesting of early exercised stock options	—	—	36	—	208	—	115
Accretion of preferred stock dividends and issuance costs	625	640	633	320	312	156	154
Deferred offering costs not yet paid	—	—	—	—	—	—	967

*See accompanying notes to consolidated financial statements*

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Description of the Business**

ServiceNow, Inc. (formerly Service-now.com) is a leading provider of cloud-based services to automate enterprise IT operations. Our service includes a suite of applications built on our proprietary platform that automates workflow and integrates related business processes. We focus on transforming enterprise IT by automating and standardizing business processes and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, to lower operational costs and to enhance efficiency. Additionally, our customers use our extensible platform to build custom applications for automating activities unique to their business requirements.

**(2) Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and include our accounts and the accounts of our wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

***Stock Split***

The consolidated financial statements reflect three 2-for-1 stock splits of our common stock with no corresponding change in par value, approved by the Board of Directors and stockholders, effective July 30, 2010, May 13, 2011 and December 15, 2011. Share and per share amounts have been retroactively restated to reflect the stock splits for all periods presented.

Per the terms of the convertible preferred stock, each stock split results in a proportional adjustment to the conversion ratio of each series of the convertible preferred stock. As a result, at March 31, 2012, each share of convertible preferred stock is convertible at any time at the option of the holder into eight shares of common stock.

***Fiscal Year Change***

On February 3, 2012, our board of directors approved a change to our fiscal year end from June 30 to December 31. Included in this report is the transition period for the six months ended December 31, 2011. Accordingly, we present the consolidated balance sheets as of June 30, 2010 and 2011, December 31, 2011 and March 31, 2012, and the consolidated statements of comprehensive income (loss), changes in convertible preferred stock and stockholders' deficit, and cash flows for the fiscal years ended June 30, 2009, 2010 and 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012. References to fiscal 2009, 2010 and 2011 still refer to the fiscal years ended June 30, 2009, June 30, 2010 and June 30, 2011, respectively.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Items subject to the use of estimates include revenue recognition, the determination of the provision for income taxes, loss contingencies and the fair value of stock awards.



**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Unaudited Interim Financial Information***

The accompanying consolidated statements of comprehensive income and cash flows for the six months ended December 31, 2010 and the three months ended March 31, 2011 and 2012 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments necessary to state fairly our results of operations and cash flows for the six months ended December 31, 2010 and the three months ended March 31, 2011 and 2012. The financial data and the other information disclosed in these notes to the consolidated financial statements related to the six-month period and the three-month periods are unaudited.

***Unaudited Pro Forma Balance Sheet***

Upon the consummation of the initial public offering, or IPO, all of the outstanding shares of convertible preferred stock will automatically convert into shares of common stock, assuming we raise at least \$50.0 million. The unaudited pro forma data as of March 31, 2012 has been prepared assuming the conversion of the convertible preferred stock outstanding into 83,703,016 shares of common stock.

***Segments***

We define the term “chief operating decision maker” to be our Chief Executive Officer. Our Chief Executive Officer reviews the financial information presented on a consolidated basis, accompanied by disaggregated information about revenue by geographic region for purposes of allocating resources and evaluation of financial performance. Accordingly, we have determined that we operate in a single reporting segment, enterprise IT operations management.

***Revenue Recognition***

We derive our revenues from two sources: (i) subscriptions and (ii) professional services and other. Subscription revenues are primarily comprised of fees which give customers access to our suite of on-demand applications, as well as access to our extensible platform to build custom applications. Our contracts typically do not give the customer the right to take possession of the software supporting the solution. Professional services and other revenues consist of fees associated with the implementation and configuration of our service. Professional services and other revenues also include customer training and attendance fees for Knowledge, our annual user conference.

We commence revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service has been provided to the customer;
- The collection of related fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

Signed agreements are used as evidence of an arrangement. If a signed contract by the customer does not exist, we have historically used either a purchase order or a signed order form as evidence of an arrangement. In cases where both a signed contract and either a purchase order or signed order form exist, we consider the signed contract to be the final persuasive evidence of an arrangement.

Subscription revenues are recognized ratably over the contract term beginning on the commencement date of each contract, which is the date we make our service available to our customers. Once our service is available

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to customers, amounts that have been invoiced are recorded in accounts receivable and in deferred revenue. The majority of our professional services are priced on a fixed-fee basis. A limited number of our professional services are priced on a time-and-materials basis. Professional services and other revenues are recognized as the services are delivered using a proportional performance model. Such services are delivered over a short period of time. In instances where final acceptance of the services are required before revenues are recognized, revenues and the associated costs are deferred until all acceptance criteria have been met.

We assess collectibility based on a number of factors such as past collection history with the customer and creditworthiness of the customer. If we determine collectibility is not reasonably assured, we defer the revenue recognition until collectibility becomes reasonably assured. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. Our arrangements do not include general rights of return.

We have multiple element arrangements comprised of subscription fees and professional services. In October 2009, the Financial Accounting Standards Board, or FASB, ratified authoritative accounting guidance regarding revenue recognition for arrangements with multiple deliverables effective for fiscal periods beginning on or after June 15, 2010. The guidance affects the determination of separate units of accounting in arrangements with multiple deliverables and the allocation of transaction consideration to each of the identified units of accounting. Previously, a delivered item was considered a separate unit of accounting when (i) it had value to the customer on a stand-alone basis, (ii) there was objective and reliable evidence of the fair value of the undelivered items, and (iii) there was no general right of return relative to the delivered services or the performance of the undelivered services was probable and substantially controlled by the vendor. The new guidance eliminates the requirement for objective and reliable evidence of fair value to exist for the undelivered items in order for a delivered item to be treated as a separate unit of accounting. The guidance also requires arrangement consideration to be allocated at the inception of the arrangement to all deliverables using the relative-selling-price method and eliminates the use of the residual method of allocation. Under the relative-selling-price method, the selling price for each deliverable is determined using vendor-specific objective evidence, or VSOE, of selling price or third-party evidence, or TPE, of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, the guidance requires an entity to determine the best estimate of selling price, or BE SP.

Prior to the adoption of this authoritative accounting guidance, we did not have objective and reliable evidence of fair value for the items in our multiple element arrangements. As a result, we accounted for subscription and professional services revenues as one unit of account. Because both the subscription service and the professional services represent separate activities that are priced independently, we recognized total contracted revenues ratably over the contracted term of the subscription agreement.

We adopted the new guidance on a prospective basis for fiscal 2011. As a result, this guidance was applied to all revenue arrangements entered into or materially modified since July 1, 2010. Upon adoption of this authoritative accounting guidance, we have accounted for subscription and professional services revenues as separate units of accounting. To qualify as a separate unit of accounting, the delivered item must have value to the customer on a standalone basis. Our subscription service has standalone value because it is routinely sold separately by us. In determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work. Our professional services, including implementation and configuration services, are not so unique and complex that other vendors cannot provide them. In some instances, our customers independently contract with third-party vendors to do the implementation and we regularly outsource implementation services to contracted third-party vendors. As a result, we concluded that professional

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

services including implementation and configuration services have standalone value. Our on-demand application is fully functional without any additional development, modification or customization. We provide customers access to our subscription service at the beginning of the contract term.

We determine the selling price of each deliverable in the arrangement based on the selling price hierarchy. The selling price for each unit of account is based on the BESP since VSOE and TPE are not available for our subscription service or professional services and other. The BESP for each deliverable is determined primarily by considering the historical selling price of these deliverables in similar transactions as well as other factors, including, but not limited to, market competition, review of stand-alone sales and pricing practices. The total arrangement fee for these multiple element arrangements is then allocated to the separate units of account based on the relative selling price. The method used to determine the BESP for our subscription service is consistent with the method used to determine prices for our services that are sold regularly on a standalone basis. In determining the appropriate pricing structure, we consider the extent of competitive pricing of similar products, marketing analyses and other feedback from analysts. We price our subscription service based on the number of users with a defined process role, according to a tiered structure. The BESP for our subscription service is based upon the historical selling price of these deliverables. Historically, our professional services were priced on a fixed-fee basis as a percentage of the subscription fee. We also prepared a standard build-up cost analysis to estimate the fixed fee for our professional services based on the estimated level of effort to complete the professional services. If professional services were priced below the expected range due to discounting, fees allocated to professional services were limited to the amount that is not contingent upon the delivery of our subscription service. In December 2011, we began shifting our pricing model to a time-and-materials basis.

In limited circumstances, we grant certain customers the right to deploy our subscription service on their own servers without significantly penalty. We have analyzed all of the elements in our multiple element arrangements and determined that we do not have sufficient VSOE of fair value to allocate revenue to our subscription service and professional services. We defer all revenue under the arrangement until the commencement of the subscription service and any associated professional services. Once the subscription service and the associated professional services have commenced, the entire fee from the arrangement is recognized ratably over the remaining period of the arrangement.

***Deferred Revenue***

Deferred revenue consists primarily of payments received in advance of revenue recognition from our subscriptions and professional services and other described above and is recognized as the revenue recognition criteria are met. We generally invoice our customers in annual installments for subscription services. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription license agreements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current portion of deferred revenue and the remaining portion is recorded as long-term.

***Foreign Currency Translation***

The functional currencies for our foreign subsidiaries are their local currencies. Assets and liabilities of the wholly-owned foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at each period end. Amounts classified in stockholders' deficit are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rates during the period. The resulting translation adjustments are recorded in accumulated other comprehensive income as a component of stockholders' deficit.

***Allocation of Overhead Costs***

Overhead associated with facilities, IT costs and depreciation is allocated to cost of revenues and operating expenses based on headcount.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Fair Value Measurements***

Our financial instruments consist primarily of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses. These financial instruments are stated at their respective carrying values, which approximate their fair values, due to their short-term nature.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We use a fair value hierarchy that is based on three levels of inputs, of which the first two are considered observable and the last unobservable. Our assets and liabilities are classified as Level 1, 2 or 3 within the following fair value hierarchy:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access;

Level 2—Inputs other than Level 1 that are directly or indirectly observable, such as quoted prices for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, such as interest rates, yield curves and foreign currency spot rates; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Our cash and cash equivalents generally consist of investments in money market mutual funds and commercial paper. Cash and cash equivalents are stated at fair value.

***Restricted Cash***

Cash balances pledged as collateral for letters of credit are considered to be restricted cash and classified as such in the consolidated balance sheets. During fiscal 2010, we entered into fully secured letters of credit with a financial institution for two building lease arrangements in lieu of cash security deposits. These letter of credit agreements replaced our prior agreement with another financial institution, which was not terminated until fiscal 2011. As such, we had two letters of credit outstanding on the same building lease arrangement and a third letter of credit outstanding on another building lease arrangement as of June 30, 2010. These letters of credit were fully secured by certificates of deposit resulting in restricted cash of \$0.4 million as of June 30, 2010.

During fiscal 2011, we relocated our headquarters and terminated the lease on our former premises. As a result, a letter of credit was maintained for only one building lease arrangement at June 30, 2011, December 31, 2011 and March 31, 2012. This letter of credit was fully secured by a certificate of deposit resulting in an immaterial restricted cash balance for each period end.

***Short-term Investments***

Short-term investments consist of commercial paper, corporate notes and bonds and U.S. government agency securities. We classify short-term investments as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are in accumulated other comprehensive income, a component of stockholders' equity (deficit). We evaluate our investments to assess whether those with unrealized

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in interest and other income (expense), net in the consolidated statements of comprehensive income (loss).

***Accounts Receivable***

We record trade accounts receivable at the net invoice value and such receivables are non-interest bearing. We consider receivables past due based on the contractual payment terms. We review our exposure to accounts receivable and write off specific amounts if collectibility is no longer reasonably assured. As of June 30, 2010 and 2011, December 31, 2011 and March 31, 2012 (unaudited), there was no allowance for doubtful accounts as historical write-offs have not been significant.

***Deferred Commissions***

Deferred commissions are the incremental costs that are directly associated with non-cancelable subscription contracts with customers and consist of sales commissions paid to our direct sales force and referral fees paid to independent third-parties. The commissions are deferred and amortized on a straight-line basis over the non-cancelable terms of the related customer contracts. Amortization of deferred commissions is included in sales and marketing expense in the consolidated statements of comprehensive income (loss).

***Property and Equipment***

Property and equipment are stated at cost, subject to review of impairment, and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment and software	3—5 years
Furniture and fixtures	3—5 years
Leasehold improvements	shorter of the lease term or estimated useful life

When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expenses. Repairs and maintenance are charged to operations as incurred.

***Long-Lived Assets***

We assess the recoverability of long-lived assets whenever adverse events or changes in circumstances indicate impairment may have occurred. If the future undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, an impairment has been incurred and a loss is recognized to reduce the carrying value of the long-lived assets to fair value, which is determined by discounting estimated future cash flows.

In addition to the recoverability assessment, we routinely review the remaining estimated lives of our long-lived assets. During fiscal 2009, 2010 and 2011, the six months ended December 31, 2010 (unaudited) and 2011 and the three months ended March 31, 2011 and 2012 (unaudited), there was no change to useful lives and related depreciation expense as we believe these estimates are reflective of the period the assets will be used in operations.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Capitalized Software Costs***

Costs incurred to develop our cloud-based service to automate enterprise IT operations are capitalized during the application development stage and amortized over the software's estimated useful life. To date, due to the delivery frequency of our product releases, there have been no material qualifying costs incurred during the application development stage in any of the periods presented.

***Leases***

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations or periods during the lease term where rent is not required, we record the total rent payable on a straight-line basis over the term of the lease but exclude lease extension periods. The difference between rent payments and straight-line rent expense is recorded as deferred rent in the consolidated balance sheets. Deferred rent that will be recognized during the succeeding 12-month period is recorded as the current portion of deferred rent and the remainder is recorded as long-term deferred rent.

Under certain leases, we also receive incentives for leasehold improvements, which are recognized as deferred rent, if we determine they are owned by us, and amortized on a straight-line basis over the shorter of the lease term or estimated useful life as a reduction to rent expense. The leasehold improvements are included in property and equipment, net.

***Preferred Stock Warrants Liability***

In connection with a line of credit with a financial institution, we issued warrants that allowed the holder to exercise the warrants into a fixed number of shares (subject to antidilution adjustments) of series B redeemable convertible preferred stock. These warrants provided for the issuance of shares that were redeemable at the option of the holder, therefore, the warrants were classified as a liability and initially measured at fair value. A corresponding offsetting debt discount was recorded and amortized as additional interest expense over the 12-month term of the associated line of credit. We remeasured the warrants at subsequent reporting periods with the change in fair value reflected as interest and other income (expense), net in the consolidated statements of comprehensive income (loss). We continued to remeasure the warrants to fair value until they were net settled during fiscal 2010.

***Convertible Preferred Stock***

Our Amended and Restated Articles of Incorporation authorize the issuance of shares of series A redeemable convertible preferred stock (Series A), series B redeemable convertible preferred stock (Series B), series C redeemable convertible preferred stock (Series C) and series D convertible preferred stock (Series D), which hereafter are collectively referred to as our "convertible preferred stock." The Series A, Series B and Series C include a contingent and optional redemption provision that may require us to redeem the preferred shares. Additionally, the convertible preferred stock includes certain redemption provisions upon liquidation. The holders of our convertible preferred stock, acting as a group, would be able to elect the majority of our board of directors and control the outcome of any vote of our stockholders, including a change-in-control that would trigger liquidation. As redemption of our convertible preferred stock is outside of our control, all shares of our convertible preferred stock have been presented outside of stockholders' deficit in our consolidated balance sheets and consolidated statements of changes in convertible preferred stock and stockholders' deficit.

***Stock-Based Compensation***

We measure compensation expense for all stock-based payments made to employees and our board of directors based on the estimated fair value of the award as of the date of grant. The expense is recognized, net of

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

forfeiture activity, estimated to be 4% annually, over the requisite service period, which is generally the vesting term of four years. The fair value of awards is estimated using the Black-Scholes options pricing model. Refer to Note 12 for further information.

During fiscal 2009 and 2010, additional compensation expense was recorded as our employees and our founder sold shares of common stock back to us as part of the Series C and Series D financings. The transactions resulted in a premium paid to our employees and our founder in excess of fair value of \$3.8 million and \$30.8 million reflected as employee compensation for fiscal 2009 and 2010, respectively. There were no similar material charges for fiscal 2011, the six months ended December 31, 2011 or the three months ended March 31, 2011 and 2012 (unaudited).

***Net Income (Loss) Per Share Attributable to Common Stockholders***

We compute net income (loss) attributable to common stockholders using the two-class method required for participating securities. We consider our convertible preferred stock and shares of common stock subject to repurchase resulting from the early exercise of stock options to be participating securities since they contain non-forfeitable rights to dividends or dividend equivalents in the event we declare a dividend for common stock. In accordance with the two-class method, earnings allocated to these participating securities, are subtracted from net income after deducting preferred stock dividends and accretion to the redemption value of the Series A, Series B and Series C to determine total undistributed earnings to be allocated to common stockholders. The holders of our convertible preferred stock do not have a contractual obligation to share in our net losses and such shares are excluded from the computation of basic earnings per share in periods of net loss.

Basic net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are reallocated to reflect the potential impact of dilutive securities. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, adjusted for the effects of potentially dilutive common shares, which are comprised of outstanding stock options, warrants, convertible preferred stock and common stock subject to repurchase. The dilutive potential common shares are computed using the treasury stock method or the as-if converted method, as applicable. In periods where the effect of the conversion of preferred stock is dilutive, net income (loss) attributable to common stockholders is adjusted by the associated preferred dividends and accretions. The effects of outstanding stock options, common stock subject to repurchase, warrants and convertible preferred stock are excluded from the computation of diluted net income (loss) per common share in periods in which the effect would be antidilutive.

***Concentration of Market and Credit Risk and Significant Customers***

We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

Financial instruments potentially exposing us to credit risk consist primarily of cash, restricted cash and accounts receivable. We maintain cash balances at financial institutions that management believes to have good credit ratings and represent minimal risk of loss of principal. Accounts located in the United States are secured by the Federal Deposit Insurance Corporation.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We review the composition of the accounts receivable balance, historical write-off experience and the potential risk of loss associated with delinquent accounts to determine if an allowance for doubtful accounts is necessary. Individual accounts receivable are written off when we become aware of a specific customer's inability to meet its financial obligation, and all collection efforts are exhausted. Credit risk arising from accounts receivable is mitigated due to our large number of customers and their dispersion across various industries. At June 30, 2010 and 2011 and December 31, 2011, there were no customers that represented more than 10% of our accounts receivable balance. At March 31, 2012 (unaudited), we had one customer that accounted for approximately 17% of our accounts receivable balance. We had one customer that accounted for approximately 11% of our revenues during fiscal 2009. During fiscal 2010 and 2011, the six months ended December 31, 2010 (unaudited) and 2011 and the three months ended March 31, 2011 and 2012 (unaudited), there were no customers that individually exceeded 10% of our revenues.

***Warranties and Indemnification***

Our cloud-based service to automate enterprise IT operations is typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with our online help documentation under normal use and circumstances.

We include service level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event we fail to meet those levels. To date, we have not incurred significant costs as a result of such commitments and have not recorded any significant liabilities related to such obligations in the consolidated financial statements.

We have also agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as a director or officer of our company or that person's services provided to any other company or enterprise at our request. We maintain director and officer insurance coverage that may enable us to recover a portion of any future amounts paid. The fair values of these obligations are not material as of each balance sheet date.

Our arrangements include provisions indemnifying customers against liabilities if our products infringe a third-party's intellectual property rights. We have not incurred any costs as a result of such indemnifications and have not recorded any liabilities related to such obligations in the consolidated financial statements.

***Income Taxes***

We use the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized.

Our tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. We recognize the tax benefit of an uncertain tax position only if it is more likely than not the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

as the largest amount of benefit which is more likely than not (greater than 50% likely) to be realized upon settlement with the taxing authority. We recognize interest accrued and penalties related to unrecognized tax benefits in our tax provision.

We calculate the current and deferred income tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed income tax returns are recorded when identified. The amount of income taxes paid is subject to examination by U.S. federal and state tax authorities. The estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. To the extent the assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made.

**Adoption of New Accounting Standards**

**Revenue Recognition.** In October 2009, the FASB issued Accounting Standards Update, or ASU, 2009-13, "Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements—a Consensus of the FASB Emerging Issues Task Force." This update provides amendments to the criteria in ASC 605, "Revenue Recognition," for separating consideration in multiple-deliverable arrangements by establishing a selling price hierarchy. The selling price used for each deliverable will be based on VSOE if available, third-party evidence if VSOE is not available, or BEPS if neither VSOE nor third-party evidence is available. ASU 2009-13 also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, the guidance expands the disclosure requirements for revenue recognition.

The guidance could be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted on a retrospective basis. We adopted the guidance prospectively on July 1, 2010, which resulted in a decrease to deferred revenue and a corresponding increase to total revenues as of and for the year ended June 30, 2011. The primary reason for the impact was the recognition of professional service revenue over the performance period, which is shorter than the estimated period over which customers benefited from initial consulting services.

The following table summarizes the effects of this new guidance on our consolidated balance sheets and statements of comprehensive income (loss) (in thousands):

	As of and for the Fiscal Year Ended June 30, 2011		
	As Reported	Under Previous Accounting Guidance	Impact of Adoption of ASU 2009-13
Total deferred revenue	\$ 74,646	\$ 81,036	\$ (6,390)
Revenues:			
Subscription	\$ 79,191	\$ 78,305	\$ 886
Professional services and other	13,450	7,946	5,504
Total revenues	\$ 92,641	\$ 86,251	\$ 6,390

**Comprehensive Income.** On June 16, 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, which revises the manner in which companies present comprehensive income in their financial statements. This update requires companies to present components of comprehensive income in either (i) a continuous statement of comprehensive income or (ii) two separate but consecutive statements. It also

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

eliminates the option for companies to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective for fiscal periods beginning after December 15, 2011, with earlier adoption permitted. Accordingly, we retroactively adopted the provision of ASU 2011-05 during the six-month period ended December 31, 2011. The adoption of this guidance did not result in a material effect on our consolidated financial statements.

**(3) Short-term Investments**

During the three months ended March 31, 2012, we purchased commercial paper, corporate notes and bonds and U.S. government agency securities, all with maturities of less than twelve months. The following is a summary of our short-term investments (in thousands):

	March 31, 2012 (Unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	\$ 3,997	\$ —	\$ (5)	\$ 3,992
Corporate notes and bonds	8,293	—	(10)	8,283
U.S. government agency securities	3,070	—	(1)	3,069
Total available-for-sale securities	<u>\$ 15,360</u>	<u>\$ —</u>	<u>\$ (16)</u>	<u>\$ 15,344</u>

As of March 31, 2012 (unaudited) we had certain available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. There were no impairments considered other-than-temporary as it is more likely than not we will hold the securities until maturity or a recovery of the cost basis. The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category (in thousands):

	March 31, 2012 (Unaudited)	
	Fair Value	Gross Unrealized Losses
Commercial paper	\$ 3,992	\$ (5)
Corporate notes and bonds	7,238	(10)
U.S. government agency securities	3,069	(1)
Total	<u>\$ 14,299</u>	<u>\$ (16)</u>

For the three months ended March 31, 2012 (unaudited), there were no sales of our securities resulting in gross realized gains or losses.

**(4) Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consists of the following (in thousands):

	June 30,		December 31,	March 31,
	2010	2011	2011	2012 (Unaudited)
Founder's receivable	\$5,267	\$5,267	\$ 5,267	\$ —
Other	429	3,311	4,616	5,768
Total prepaid expenses and other current assets	<u>\$5,696</u>	<u>\$8,578</u>	<u>\$ 9,883</u>	<u>\$ 5,768</u>

Refer to Note 15 for further information regarding our founder's receivable.

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**(5) Property and Equipment, net**

Property and equipment, net consists of the following (in thousands):

	June 30,		December 31,	March 31,
	2010	2011	2011	2012
				(Unaudited)
Computer equipment and software	\$ 1,752	\$ 6,562	\$ 16,586	\$ 21,831
Furniture and fixtures	192	1,230	1,755	1,879
Leasehold improvements	106	2,747	2,795	2,904
Construction in progress	298	1,031	3,740	3,040
	2,348	11,570	24,876	29,654
Less: accumulated depreciation	(650)	(2,103)	(4,181)	(5,563)
Total property and equipment, net	<u>\$ 1,698</u>	<u>\$ 9,467</u>	<u>\$ 20,695</u>	<u>\$ 24,091</u>

Construction in progress consists primarily of leasehold improvements and servers, networking equipment and storage infrastructure being provisioned in our new third-party data center hosting facilities. Depreciation expense for fiscal 2009, 2010 and 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012 was \$0.2 million, \$0.4 million, \$1.5 million, \$0.5 million (unaudited), \$2.0 million, \$0.4 million (unaudited) and \$2.0 million (unaudited), respectively.

**(6) Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consists of the following (in thousands):

	June 30,		December 31,	March 31,
	2010	2011	2011	2012
				(Unaudited)
Taxes payable	\$ 6,127	\$ 6,851	\$ 7,399	\$ 5,553
Bonuses and commissions	3,176	3,613	6,080	5,739
Accrued compensation	891	1,856	3,570	4,045
Accrued third-party professional services	541	1,798	1,919	3,682
Other employee expenses	286	716	1,809	2,792
Other	1,708	3,750	4,831	6,291
Total accrued expenses and other current liabilities	<u>\$ 12,729</u>	<u>\$ 18,584</u>	<u>\$ 25,608</u>	<u>\$ 28,102</u>

Refer to Notes 14 and 15 for further information regarding taxes payable.

**(7) Warrants for the Purchase of Series B Redeemable Convertible Preferred Stock**

In June 2006 and 2007, we issued warrants exercisable for 19,943 and 31,909 shares of Series B, respectively, with an exercise price of \$1.25 per share. The warrants were fully exercisable and each had a term of seven years from the date of issuance. The fair values of the warrants were determined on the date of issuance and subsequently using the Black-Scholes options pricing model until they were net settled during fiscal 2010. The assumptions used to determine the fair value of the warrants as of June 30, 2009 were as follows: estimated volatility of 70%, expected term of 4.61 years, risk-free interest rate of 2.37%, and expected dividend yield of zero. The weighted-average fair value of the warrants on the date of issuance was approximately \$3.01 per share.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(8) Fair Value Measurements**

The following table presents our fair value hierarchy for our assets and liabilities measured at fair value on a recurring basis at March 31, 2012 (unaudited):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents:				
Money market funds	\$ 247	\$ —	\$ —	\$ 247
Commercial paper	—	9,396	—	9,396
Short-term investments:				
Commercial paper	—	3,992	—	3,992
Corporate notes and bonds	—	8,283	—	8,283
U.S. government agency securities	—	3,069	—	3,069
Total	<u>\$ 247</u>	<u>24,740</u>	<u>\$ —</u>	<u>\$24,987</u>

We determine the fair value of our security holdings based on pricing from our service provider. The service provider values the securities based on “consensus pricing,” using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures.

Our Level 3 financial liabilities consisted of long-term liabilities related to warrants issued for the purchase of preferred stock that were net settled during fiscal 2010. Measurement of fair values for the warrants is made utilizing the Black-Scholes options pricing model. The inputs used in determining the fair values are discussed in detail in Note 7. Level 3 activity is as follows (in thousands):

	<u>Level 3</u>
Balance at June 30, 2008	\$ 67
Interest and other income (expense), net for change in fair value of preferred stock warrants	61
Balance at June 30, 2009	128
Interest and other income (expense), net for change in fair value of preferred stock warrants	702
Net settlement of preferred stock warrant liability	(830)
Balance at June 30, 2010	<u>\$ —</u>

**(9) Convertible Preferred Stock**

In April 2009, we entered into a Series C Preferred Stock Purchase Agreement, pursuant to which we issued and sold an aggregate of 983,606 shares of Series C, at a purchase price of \$6.10 per share, for gross proceeds of approximately \$6.0 million. The total gross proceeds were remitted to our founder in exchange for a non-interest bearing promissory note (the Note) in the amount of \$6.0 million. The Note was settled through the exchange of 7,868,848 shares of common stock at \$0.76 per share, which we subsequently cancelled. At the time the Note was settled, the estimated fair value of our common stock was \$0.28 per share. This resulted in compensation expense of \$3.8 million in fiscal 2009.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On November 20, 2009, we entered into a Series D Preferred Stock Purchase Agreement with a new stockholder. The new stockholder purchased 2,990,635 shares of Series D at a price of \$17.27 per share, for gross proceeds of \$51.6 million. Concurrent with the sale and issuance of Series D preferred stock, we repurchased and subsequently cancelled 23,510,264 shares of common stock from eligible stockholders, including 16,480,000 shares of common stock from our founder, at a price of \$2.16 per share. We also offered to repurchase 51,852 vested warrants from a financial institution for \$17.27 per share, less the strike price of \$1.25 per warrant. Gross proceeds from this transaction to our stockholders and warrant holders were \$51.6 million. Eligible stockholders consist of all former and current employees whose employment commenced on or prior to November 1, 2009 and had vested shares as of December 2, 2009. Current employees were required to retain a minimum of 30% of their vested shares, while former employees could sell 100% of their shares.

At the time we repurchased the common stock and warrants, the estimated fair value of our common stock was \$0.85 per share. The difference between the fair value and the price paid resulted in a premium paid to repurchase the common stock of approximately \$30.8 million, of which \$0.7 million, \$2.0 million, \$3.6 million and \$24.5 million are reflected in cost of revenues, sales and marketing expenses, research and development expenses, and general and administrative expenses in the consolidated statement of comprehensive income (loss) for fiscal 2010, respectively. Additionally, the difference between the fair value and the price paid for the warrants resulted in a premium of \$0.3 million reflected in interest and other income (expense), net in the consolidated statement of comprehensive income (loss) for fiscal 2010.

The rights, preferences and privileges of our convertible preferred stock are as follows:

***Dividends***

The holders of shares of the Series A and Series B are entitled to receive dividends of cash at the rate of 8% of the original issue price per annum, payable when and if declared by our board of directors or in connection with a liquidation event. The right to receive dividends is cumulative. As of June 30, 2010, and 2011, December 31, 2011 and March 31, 2012 (unaudited), no dividends have been declared or paid.

***Voting Rights***

Each holder of convertible preferred stock shall be entitled to the number of votes equal to the number of whole shares of common stock into which the shares of convertible preferred stock held by such holder are then convertible.

***Conversion***

Each share of convertible preferred stock is convertible at any time at the option of the holder into eight shares of common stock (subject to customary adjustments to protect against dilution). In addition, each series of convertible preferred stock automatically converts into common stock upon the vote of the majority of the outstanding shares of such series and all series of convertible preferred stock automatically convert into common stock upon the closing of an IPO in which the cash proceeds, net of underwriting discounts and commissions, are at least \$50.0 million. We have reserved sufficient shares of common stock for the conversion of preferred stock.

***Redemption***

The Series A, Series B, and Series C have redemption provisions requiring us to redeem all of the then outstanding Series A, Series B, and Series C in three annual installments, beginning on a date no sooner than five years after November 25, 2009 if the holders of a majority of the Series A, the holders of a majority of the Series B, and the holders of a majority of the Series C all elect such a redemption. Upon redemption, the amount

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

payable for each share of Series A, Series B and Series C shall be equal to the original issue price of such share plus, in the case of the Series A and Series B, an amount equal to 8% of the original issue price per annum on such share calculated from the date of issue of the first share of Series A or Series B, as applicable.

Due to the redemption provisions, the Series A, Series B and Series C are classified outside of permanent equity as “mezzanine” at their original fair value on the date of issue, net of issuance costs. Subsequent accretion charges are recorded to increase the net amount of these shares to the redemption amount, including the additional 8% per annum redemption amounts payable in respect of the Series A and Series B, at the earliest possible redemption date. The accretion charges are charged against additional paid-in capital as we currently do not have retained earnings, and to accumulated deficit once there is no additional paid-in capital available.

The combined aggregate amount of redemption requirements for all issuances of capital stock that are redeemable assuming exercise of redemption rights at the earliest possible date, is as follows as of December 31, 2011 (in thousands):

	<u>Series A</u>	<u>Series B</u>	<u>Series C</u>	<u>Total</u>
<b>Years Ended December 31,</b>				
2012	\$ —	\$ —	\$ —	\$ —
2013	—	—	—	—
2014	216	410	2,000	2,626
2015	2,263	4,304	2,000	8,567
2016	2,107	4,013	2,000	8,120
<b>Total redemption requirements</b>	<u>\$4,586</u>	<u>\$8,727</u>	<u>\$6,000</u>	<u>\$19,313</u>

***Liquidation Preference***

Upon the liquidation, dissolution or winding up of our company, a consolidation or merger involving a change in control of our company or the conveyance of substantially all of our assets, the holders of Series C have a preference in liquidation over the Series A, Series B, Series D and common stockholders equal to the original issue price plus all declared and unpaid dividends. If our assets are insufficient to fulfill the Series C liquidation amount, the Series C stockholders will share in the distribution of the assets on a pro rata basis based on the full liquidation preference owed to each Series C stockholder.

After the payment in full of the liquidation preference of the Series C, the holders of the Series A and Series B have a preference in liquidation over the Series D and common stockholders equal to the original issue price plus all accrued or declared and unpaid dividends. If our assets are insufficient to fulfill the Series A and Series B liquidation amounts, the Series A and Series B stockholders will share in the distribution of the assets on a pari-passu, pro rata basis based on the full liquidation preference owed to each Series A and Series B stockholder.

After the payment in full of the liquidation preference of the Series C, Series A and Series B, the holders of the Series D have a preference in liquidation over the common stockholders equal to the original issue price plus all declared and unpaid dividends. If our assets are insufficient to fulfill the Series D liquidation amounts, the Series D stockholders will share in the distribution of the assets on a pro rata basis based on the full liquidation preference owed to each Series D stockholder.

After payment in full of the liquidation preference of the Series C, Series A, Series B and Series D, our assets that are legally available for distribution will be distributed ratably to the holders of common stock.

All preferred stock liquidation preferences are subject to appropriate adjustment in the event of any stock dividends, combinations, splits, recapitalizations and the like affecting such shares.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Due to the liquidation provisions of Series D, these shares are also classified outside of permanent equity as “mezzanine” at the redemption value as the deemed liquidation events and related timing are not solely within our control.

**(10) Common Stock**

We are authorized to issue 200,000,000 shares at March 31, 2012 (unaudited). Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. Any such dividends would be subject to the preferential dividend rights of the convertible preferred stock.

On February 21, 2012, we issued and sold 1,750,980 shares of common stock at a price of \$10.20 per share for gross proceeds of \$17.9 million in a private placement with a new stockholder. As part of this private placement, our founder sold 700,000 shares of common stock at the same price per share to this new stockholder.

As of March 31, 2012 (unaudited), we had 27,586,754 shares of common stock outstanding and had reserved shares of common stock for future issuance as follows:

	<b>March 31, 2012 (Unaudited)</b>
Series A	20,000,000
Series B	32,323,904
Series C	7,868,848
Series D	30,643,032
Stock option plan:	
Options outstanding	36,958,079
Restricted stock units	1,000,000
Stock awards available for future grants	4,300,809
<b>Total reserved shares of common stock for future issuance</b>	<b>133,094,672</b>

**(11) Stock Awards**

We have a 2005 Stock Option Plan, or 2005 Stock Plan, which provides for grants of stock awards, including options to purchase shares of our common stock, stock purchase rights and restricted stock units, or RSUs, to certain employees, officers, directors and consultants.

**Stock Options**

The stock options are exercisable at a price equal to the market value of the underlying shares of common stock on the date of the grant as determined by our board of directors. Stock options granted under our 2005 Stock Plan to new employees generally vest 25% one year from the date the requisite service period begins and continue to vest monthly for each month of continued employment with us over the remaining three years. Options granted to members of our board of directors and to existing employees generally vest in 48 equal monthly installments. Options granted generally are exercisable for a period of up to 10 years. Option holders can exercise unvested options to acquire restricted stock. Upon termination of service, we have the right to repurchase at the original purchase price any unvested (but issued) shares of common stock. Shares of common stock purchased under our 2005 Stock Plan are subject to certain restrictions, including the right of first refusal by us for the sale or transfer of these shares to outside parties. Our right of first refusal terminates upon completion of an IPO.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of March 31, 2012, we had 59,580,440 total shares of common stock reserved for issuance under our 2005 Stock Plan. A summary of the stock option activity for fiscal 2009, 2010 and 2011, the six months ended December 31, 2011 and the three months ended March 31, 2012 is as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 30, 2008	16,333,664	\$ 0.03		
Granted	4,160,000	0.21		
Exercised	(348,328)	0.02		
Forfeited	(981,336)	0.05		
Outstanding at June 30, 2009	19,164,000	0.07		
Granted	4,684,000	1.00		
Exercised	(7,036,768)	0.03		
Forfeited	(290,248)	0.41		
Outstanding at June 30, 2010	16,520,984	0.34		
Granted	15,402,456	2.15		
Exercised	(4,279,456)	0.25		
Forfeited	(867,590)	0.87		
Cancelled	(450,000)	0.18		
Outstanding at June 30, 2011	26,326,394	1.40		
Granted	17,055,120	3.29		
Exercised	(1,469,118)	1.45		
Forfeited	(2,310,756)	1.61		
Outstanding at December 31, 2011	39,601,640	2.20		
Granted	2,959,500	8.83		
Exercised	(3,712,462)	0.59		
Forfeited	(1,890,599)	1.82		
Outstanding at March 31, 2012	36,958,079	\$ 2.91	8.75 years	\$ 275,015,330
Vested and expected to vest as of June 30, 2009	18,842,329	\$ 0.06	7.76 years	\$ 4,079,780
Vested and exercisable as of June 30, 2009	10,723,479	\$ 0.03	7.06 years	\$ 2,748,003
Vested and expected to vest as of June 30, 2010	16,175,929	\$ 0.33	7.72 years	\$ 14,458,066
Vested and exercisable as of June 30, 2010	7,895,777	\$ 0.07	6.63 years	\$ 9,051,521
Vested and expected to vest as of June 30, 2011	26,025,366	\$ 1.39	8.37 years	\$ 31,601,963
Vested and exercisable as of June 30, 2011	8,628,975	\$ 0.35	6.53 years	\$ 19,421,343
Vested and expected to vest as of December 31, 2011	38,723,419	\$ 2.17	8.61 years	\$ 109,458,847
Vested and exercisable as of December 31, 2011	10,123,858	\$ 0.57	6.52 years	\$ 44,821,224
Vested and expected to vest as of March 31, 2012 (unaudited)	36,411,623	\$ 2.89	8.73 years	\$ 271,693,587
Vested and exercisable as of March 31, 2012 (unaudited)	7,449,076	\$ 0.79	6.74 years	\$ 71,203,809



**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options. Our estimated fair value of common stock was \$285.5 million as of March 31, 2012 (unaudited). The total intrinsic value of options exercised was approximately \$0.1 million, \$10.1 million, \$7.5 million, \$2.8 million, \$3.3 million, \$1.4 million and \$24.4 million for fiscal 2009, 2010 and 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012, respectively. The weighted-average grant date fair value of options granted was \$1.6 million, \$2.9 million, \$17.7 million, \$5.4 million, \$40.3 million, \$2.3 million and \$13.8 million for fiscal 2009, 2010 and 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012, respectively.

As of March 31, 2012, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately \$55.8 million. The weighted average remaining vesting period of unvested stock options at March 31, 2012 was 3.0 years.

The following table summarizes information about outstanding and vested stock options as of March 31, 2012 (unaudited):

Range of Exercise Prices	Options Outstanding			Options Vested and Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0.00 to \$0.07	3,036,432	5.00	\$ 0.03	3,036,432	\$ 0.03
\$0.08 to \$0.13	146,264	6.07	0.08	141,680	0.08
\$0.14 to \$0.30	516,774	6.47	0.18	439,851	0.18
\$0.31 to \$0.70	941,002	7.44	0.34	559,576	0.34
\$0.71 to \$1.10	209,668	7.84	1.00	105,913	1.00
\$1.11 to \$1.35	1,120,666	8.06	1.21	575,162	1.21
\$1.36 to \$3.00	24,439,373	9.10	2.63	2,590,462	1.82
\$3.01 to \$4.65	3,710,400	9.64	4.29	—	—
\$4.66 to \$6.50	736,500	9.78	6.50	—	—
\$6.51 to \$9.40	1,448,750	9.85	9.40	—	—
\$9.41 to \$10.35	652,250	9.94	10.35	—	—
Total	<u>36,958,079</u>			<u>7,449,076</u>	

We issued 453,243 shares of restricted stock in fiscal 2011, 360,852 shares of restricted stock in the six months ended December 31, 2011 and 225,139 shares of restricted stock in the three months ended March 31, 2012 (unaudited) as a result of the cash exercise of unvested stock options. No such shares were issued during fiscal 2009 and 2010. The proceeds initially are recorded as a liability from the early exercise of stock options and reclassified to common stock as our repurchase right lapses. We repurchased 12,084 unvested shares during the six months ended December 31, 2011. For fiscal 2009, 2010 and 2011 and the three months ended March 31, 2012 (unaudited), we did not repurchase any unvested shares.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the restricted stock activity for fiscal 2011, the six months ended December 31, 2011 and the three months ended March 31, 2012 is as follows:

	Number Outstanding	Weighted- average Grant Date Fair Value
Balance at June 30, 2010	—	\$ —
Early exercised	453,243	0.86
Vested	(37,755)	0.58
Balance at June 30, 2011	415,488	0.89
Early exercised	360,852	1.29
Vested	(185,640)	0.66
Repurchased	(12,084)	0.74
Balance at December 31, 2011	578,616	1.21
Early exercised (unaudited)	225,139	2.41
Vested (unaudited)	(77,663)	0.84
Balance at March 31, 2012	<u>726,092</u>	1.62

**RSUs**

In February 2012, we granted 1,000,000 RSUs under our 2005 Stock Plan to our founder. The RSUs vest annually over a four-year period. As of March 31, 2012, the weighted-average grant date fair value of the RSUs was \$10.35 per share. The aggregate grant date fair value was \$10.4 million which is expected to be recognized over four years. As of March 31, 2012 (unaudited), all of the RSUs were unvested.

We recognized compensation expense of \$0.1 million (unaudited) related to RSUs for the three months ended March 31, 2012. Unrecognized compensation expense of \$9.9 million (unaudited) will be recognized into expense over the weighted average period of 4.0 years.

**(12) Stock-Based Compensation**

We use the Black-Scholes options pricing model to estimate the fair value of stock options granted. This model incorporates various assumptions including expected volatility, expected term, risk-free interest rates and expected dividend yields. The weighted-average assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted are as follows:

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010 (Unaudited)	2011	2011 (Unaudited)	2012
Expected volatility	69% - 75%	65%	50% - 69%	57% - 67%	56% - 69%	60% - 69%	55% - 57%
Expected term (in years)	5.62	6.02	6.05	6.04	5.75	6.00	6.04
Risk-free interest rate	1.48% - 3.77%	2.57% - 3.04%	1.43% - 2.96%	1.43% - 2.96%	0% - 1.92%	2.30% - 2.67%	0.99% - 1.18%
Dividend yield	—%	—%	—%	—%	—%	—%	—%

*Expected volatility.* We use the historic volatility of publicly traded peer companies as an estimate for expected volatility. In considering peer companies, characteristics such as industry, stage of development, size and financial leverage are considered.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Expected term.* We follow the simplified method when estimating the expected life of our options due to lack of relevant historical data. The simplified method calculates the expected term as the mid-point between the vesting date and the 10-year contractual lives of all options awarded.

*Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the stock-based award.

*Expected dividend yield.* The expected dividend yield is zero as we have never paid dividends and currently have no plans to do so.

*Expected forfeiture rate.* We consider our pre-vesting forfeiture history to determine our expected forfeiture rate.

*Fair value of common stock.* The fair value of our common stock was determined by our board of directors, which intended all options granted to be exercisable at a price per share not less than the per share fair value of the common stock underlying those options on the date of grant. The valuations of our common stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The assumptions used in the valuation model are based on future expectations combined with management judgment.

Since March 2010, we utilize the probability weighted expected return method, or PWERM, approach to allocate value to our common shares. The PWERM approach employs various market approach and income approach calculations depending upon the likelihood of various liquidation scenarios. For each of the various scenarios, an equity value is estimated and the rights and preferences for each stockholder class are considered to allocate the equity value to common shares. The common share value is then multiplied by a discount factor reflecting the calculated discount rate and the timing of the event. Lastly, the common share value is multiplied by an estimated probability for each scenario. The probability and timing of each scenario are based upon discussions between our board of directors and our management team. Under the PWERM, the value of our common stock is based upon four possible future events for our company: an IPO; a strategic merger or sale; remaining a private company; and dissolution.

Prior to March 2010, values for our shares of common stock were determined using an option pricing method. Estimates of the volatility were based on available information on the volatility of common stock of comparable, publicly traded companies. The common stock valuations were based on the discounted cash flow method, or DCF, under the income approach and the comparable company method and the recent transaction method under the market-based approach, which we used to estimate the total value of our company. The DCF method estimates enterprise value based on the estimated present value of future net cash flows the business is expected to generate over a forecasted period and an estimate of the present value of cash flows beyond that period, which is referred to as terminal value. The estimated present value is calculated using a discount rate known as the weighted-average cost of capital, which accounts for the time value of money and the appropriate degree of risks inherent in the business. The market-based approach considers multiples of financial metrics based on both acquisitions and trading multiples of a selected peer group of companies. These multiples are then applied to our financial metrics to derive a range of indicated values. If different estimates and assumptions had been used, the valuations could have been different.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(13) Net Income (Loss) Per Share Attributable to Common Stockholders and Pro Forma Net Income (Loss) Per Share**

The following tables present the calculation of basic and diluted net income (loss) per share attributable to common stockholders (in thousands, except share and per share data):

	Fiscal Years Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010 (Unaudited)	2011	2011 (Unaudited)	2012
<b>Numerator:</b>							
Net income (loss)	\$ (5,906)	\$ (29,705)	\$ 9,830	\$ 4,803	\$ (6,684)	\$ 2,991	\$ (5,640)
Accretion of redeemable convertible preferred stock	(625)	(640)	(633)	(320)	(312)	(156)	(154)
Net income attributable to participating securities	—	—	(7,558)	(3,721)	—	(2,319)	—
Net income (loss) attributable to common stockholders – basic	<u>\$ (6,531)</u>	<u>\$ (30,345)</u>	<u>\$ 1,639</u>	<u>\$ 762</u>	<u>\$ (6,996)</u>	<u>\$ 516</u>	<u>\$ (5,794)</u>
Undistributed earnings reallocated to participating securities	—	—	671	349	—	200	—
Net income (loss) attributable to common stockholders – diluted	<u>\$ (6,531)</u>	<u>\$ (30,345)</u>	<u>\$ 2,310</u>	<u>\$ 1,111</u>	<u>\$ (6,996)</u>	<u>\$ 716</u>	<u>\$ (5,794)</u>
<b>Denominator:</b>							
Weighted-average shares outstanding							
Basic	39,039,066	23,157,576	18,163,977	17,156,445	21,104,219	18,702,229	25,123,582
Effect of potentially dilutive securities:							
Common stock options	—	—	9,931,509	10,465,912	—	9,665,876	—
Weighted-average shares outstanding							
Diluted	<u>39,039,066</u>	<u>23,157,576</u>	<u>28,095,486</u>	<u>27,622,357</u>	<u>21,104,219</u>	<u>28,368,105</u>	<u>25,123,582</u>
Net income (loss) per share attributable to common stockholders:							
Basic	<u>\$ (0.17)</u>	<u>\$ (1.31)</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ (0.33)</u>	<u>\$ 0.03</u>	<u>\$ (0.23)</u>
Diluted	<u>\$ (0.17)</u>	<u>\$ (1.31)</u>	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ (0.33)</u>	<u>\$ 0.03</u>	<u>\$ (0.23)</u>

Potentially dilutive securities not included in the calculation of diluted net income (loss) per share because doing so would be antidilutive are as follows:

	Fiscal Years Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010 (Unaudited)	2011	2011 (Unaudited)	2012
Common stock options	19,164,000	16,520,984	7,635,190	7,890,844	39,601,640	7,033,557	36,958,079
Warrants	414,816	—	—	—	—	—	—
Convertible preferred stock	59,777,936	83,703,016	83,703,016	83,703,016	83,703,016	83,703,016	83,703,016
Restricted stock units	—	—	—	—	—	—	1,000,000
Common stock subject to repurchase	—	—	83,551	—	578,616	32,281	726,092
	<u>79,356,752</u>	<u>100,224,000</u>	<u>91,421,757</u>	<u>91,593,860</u>	<u>123,883,272</u>	<u>90,768,854</u>	<u>122,387,187</u>

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The unaudited pro forma basic and diluted net income (loss) per share was computed to give effect to the conversion of convertible preferred stock using the as-if converted method into common stock upon our IPO as though the conversion had occurred as of the beginning of the period or the original date of issuance, if later. Additionally, fiscal 2011 and the six months ended December 31, 2011 also include the sale and issuance of 1,750,980 shares of common stock in a private placement during the three months ended March 31, 2012. Refer to Note 10 for further information.

The following tables present the calculation of basic net income (loss) per share attributable to common stockholders and unaudited pro forma basic and diluted net loss per share (in thousands, except share and per share data):

	Fiscal Year Ended June 30, 2011	Six Months Ended December 31, 2011	Three Months Ended March 31, 2012 (Unaudited)
<b>Numerator:</b>			
Net income (loss)	\$ 9,830	\$ (6,684)	\$ (5,640)
Net income attributable to participating securities	(8)	—	—
Net income (loss) attributable to common stockholders—basic	<u>\$ 9,822</u>	<u>\$ (6,684)</u>	<u>\$ (5,640)</u>
Undistributed earnings reallocated to participating securities	8	—	—
Net income (loss) attributable to common stockholders—diluted	<u>\$ 9,830</u>	<u>\$ (6,684)</u>	<u>\$ (5,640)</u>
<b>Denominator:</b>			
Weighted-average shares outstanding	18,163,977	21,104,219	25,123,582
Pro forma adjustment to reflect assumed weighted-average effect of the sale of common stock in a private placement	1,750,980	1,750,980	—
Pro forma adjustment to reflect assumed weighted-average effect of conversion of convertible preferred stock	<u>83,703,016</u>	<u>83,703,016</u>	<u>83,703,016</u>
Pro forma weighted-average shares outstanding—basic	103,617,973	106,558,215	108,826,598
Pro forma adjustments to reflect effect of potentially dilutive securities:			
Common stock options	9,931,509	—	—
Common stock subject to repurchase	83,551	—	—
Restricted stock units	—	—	—
Pro forma weighted-average shares outstanding—diluted	<u>113,633,033</u>	<u>106,558,215</u>	<u>108,826,598</u>
Pro forma net income (loss) per share attributable to common stockholders			
Basic	<u>\$ 0.09</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>
Diluted	<u>\$ 0.09</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(14) Income Taxes**

The provision for income taxes consists of the following (in thousands):

	Fiscal Years Ended June 30,			Six Months Ended December 31,	
	2009	2010	2011	2010 (Unaudited)	2011
Current provision:					
Federal	\$ —	\$ —	\$ 62	\$ 111	\$ 325
State	5	2	988	449	396
Foreign	43	278	286	93	329
	<u>48</u>	<u>280</u>	<u>1,336</u>	<u>653</u>	<u>1,050</u>
Deferred provision:					
Federal	—	—	—	—	22
State	—	—	—	—	3
Foreign	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25</u>
Provision for income taxes	<u>\$ 48</u>	<u>\$ 280</u>	<u>\$ 1,336</u>	<u>\$ 653</u>	<u>\$ 1,075</u>

The components of income (loss) from continuing operations before income taxes by United States and foreign jurisdictions were as follows (in thousands):

	Fiscal Years Ended June 30,			Six Months Ended December 31,	
	2009	2010	2011	2010 (Unaudited)	2011
United States	\$ (5,864)	\$ (29,602)	\$ 10,585	\$ 5,368	\$ (1,375)
Foreign	6	177	581	88	(4,234)
Total	<u>\$ (5,858)</u>	<u>\$ (29,425)</u>	<u>\$ 11,166</u>	<u>\$ 5,456</u>	<u>\$ (5,609)</u>

The effective income tax rate differs from the federal statutory income tax rate applied to the income (loss) before provision for income taxes due to the following (in thousands):

	Fiscal Years Ended June 30,			Six Months Ended December 31,	
	2009	2010	2011	2010 (Unaudited)	2011
Tax computed at the federal statutory rate	\$ (1,991)	\$ (10,005)	\$ 3,799	\$ 1,857	\$ (1,907)
State tax, federally effected	(312)	(359)	250	122	82
Tax rate differential for international subsidiaries <sup>(1)</sup>	(1)	(13)	(47)	(23)	1,589
Stock-based compensation	50	149	727	244	978
Tax credits	(677)	(282)	(409)	(150)	(378)
Tax contingencies	194	265	171	74	178
Permanent differences	226	411	305	120	244
Change in state rate	32	(1,170)	662	295	8
Other	(15)	117	344	379	146
Valuation allowance	2,542	11,167	(4,466)	(2,265)	135
Provision for income taxes	<u>\$ 48</u>	<u>\$ 280</u>	<u>\$ 1,336</u>	<u>\$ 653</u>	<u>\$ 1,075</u>

(1) The change in the impact of the tax rate differential for international jurisdictions is primarily attributable to a change in the mix of income/loss from the United States to international jurisdictions with different income tax rates compared to the United States.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Significant components of our deferred tax assets as of June 30, 2010 and 2011 and December 31, 2011 are shown below (in thousands). A valuation allowance has been recognized to offset our deferred tax assets as realization for fiscal 2010 and 2011 and the six months ended December 31, 2011 of such deferred tax assets has not met the more likely than not threshold.

	June 30,		December 31, 2011
	2010	2011	
Deferred tax assets:			
Net operating losses	\$ 15,731	\$ 9,936	\$ 4,182
Deferred revenue	848	2,397	8,434
Accrued state taxes	—	286	28
Accrued expenses	416	363	672
Deferred rent	128	183	201
Credit carryforwards	781	858	1,357
Incentive from lessor	—	1,096	1,023
Stock-based compensation	—	345	1,333
Other	409	461	1,130
Total deferred tax assets	18,313	15,925	18,360
Less valuation allowance	(18,160)	(13,694)	(13,829)
	153	2,231	4,531
Deferred tax liabilities:			
Accrued expenses	—	—	—
Property and equipment	(153)	(2,231)	(4,531)
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2011, we had net operating loss, or NOL, carryforwards of approximately \$13.1 million for federal purposes and \$39.4 million for state purposes. If not utilized, these carryforwards will begin to expire in 2024 for federal purposes and 2018 for state purposes. Approximately \$6.8 million of federal net operating losses and \$4.2 million of state NOLs relate to stock-based compensation deductions in excess of book expense, the tax effect of which would be to credit additional paid-in capital, if realized.

We have research credit carryforwards of approximately \$0.9 million for federal purposes. If not utilized, the federal carryforward will begin to expire in 2024.

Due to cumulative losses, we maintain a valuation allowance against our deferred tax assets as of December 31, 2011. We consider all available evidence, both positive and negative, in assessing the extent to which a valuation allowance should be applied against deferred tax assets. Our valuation allowance increased \$11.2 million for fiscal 2010 as compared to fiscal 2009, decreased \$4.5 million for fiscal 2011 as compared to fiscal 2010, and increased \$0.1 million during the six months ended December 31, 2011.

Section 382 imposes annual limitations on the utilization of NOL carryforwards and other tax attributes upon an ownership change. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). We completed a Section 382 analysis. Based on this analysis, we do not believe that our NOLs and other tax attributes are limited under Section 382 as of December 31, 2011.

We have not recorded a provision for deferred U.S. tax expense that could result from the remittance of foreign undistributed earnings since we intend to reinvest the earnings of these foreign subsidiaries indefinitely.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our share of the undistributed earnings of foreign corporations not included in our consolidated federal income tax returns that could be subject to additional U.S. income tax if remitted was approximately \$0.2 million, \$0.8 million and \$0.8 million at June 30, 2010 and 2011 and December 31, 2011, respectively. The determination of the amount of unrecognized U.S. federal deferred income tax liability for undistributed earnings is not practicable.

We record liabilities, where appropriate, for all uncertain income tax positions. We recognize potential accrued interest and penalties related to unrecognized tax benefits as income tax expense.

A reconciliation of the beginning and ending balance of total unrecognized tax benefits is as follows (in thousands):

	Fiscal Years Ended June 30,			Six Months Ended December 31,	
	2009	2010	2011	2010 (Unaudited)	2011
Beginning balance	\$ 98	\$ 185	\$ 374	\$ 374	\$519
Tax provisions taken in the period:					
Additions	87	189	145	73	191
Reductions	—	—	—	—	—
Ending balance	<u>\$ 185</u>	<u>\$ 374</u>	<u>\$ 519</u>	<u>\$ 447</u>	<u>\$710</u>

As of July 1, 2011, we had total unrecognized tax benefit of approximately \$0.5 million. During the six months ended December 31, 2011, we recognized approximately \$0.2 million of interest and penalties associated with unrecognized tax benefits. We do not believe there will be a material change in our unrecognized tax positions over the next twelve months.

We file income tax returns with the U.S. federal, various states and certain foreign jurisdictions. Our tax years ending June 30, 2005 through December 31, 2011 remain open in most jurisdictions.

**(15) Related Party Transactions**

During fiscal 2009, we loaned \$6.0 million to our founder in exchange for a non-interest bearing promissory note, which was settled in connection with our sale of Series C preferred stock. Refer to Note 9 for further discussion of this transaction. No loans were issued during fiscal 2010, 2011 or the six months ended December 31, 2011.

In connection with the sale and issuance of our Series D preferred stock, we repurchased and subsequently cancelled 23,510,264 shares of common stock from eligible stockholders, including a total of 18,436,000 shares from our founder and his family, and our former chief financial officer. Refer to Note 9 for further discussion of this transaction.

As part of our sale of Series C and Series D preferred stock, we recorded a liability of \$5.3 million for withholding taxes associated with the repurchase of our founder's shares plus potential interest and penalties that may be imposed by the tax authorities. We recorded an offsetting receivable of \$5.3 million in prepaid expenses and other current assets at June 30, 2010 and 2011 and December 31, 2011 representing the total amount that was subsequently paid to us by our founder in February 2012 for these withholding taxes.



**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(16) Commitments and Contingencies**

***Leases***

We lease managed and co-location facilities for data center capacity and office space under noncancellable operating lease agreements with various expiration dates. Our data centers are located in the United States, the Netherlands, the United Kingdom, Switzerland, Canada, and Australia. Expenses at our co-location facilities consist primarily of space, power, cooling and ancillary services. Our managed facilities include the same expenses as co-location facilities in addition to leases of equipment, such as servers, networking equipment, and storage infrastructure. Rent expense associated with these facilities, included in cost of revenues, was \$1.3 million, \$2.7 million, \$4.8 million, \$2.1 million, \$3.7 million, \$1.3 million and \$2.7 million for fiscal 2009, 2010, 2011, the six months ended December 31, 2010 (unaudited) and 2011 and the three months ended March 31, 2011 and 2012 (unaudited), respectively.

We are headquartered in San Diego, California and lease office space in the United States, the United Kingdom, Germany, Australia, the Netherlands, Canada, Denmark and France. Rent expense associated with these leases was \$0.9 million, \$1.1 million, \$2.3 million, \$0.5 million (unaudited), \$1.2 million, \$1.3 million (unaudited) and \$0.8 million (unaudited) for fiscal 2009, 2010, 2011, the six months ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012, respectively. During fiscal 2011, we relocated our headquarters and terminated a lease on our former premises. The termination fee of \$0.7 million is included in rent expense for the three months ended March 31, 2011 and fiscal 2011.

Annual future minimum payments under these operating leases were as follows as of December 31, 2011 (in thousands):

	<u>Data Centers</u>	<u>Office Leases</u>	<u>Total</u>
Years Ended December 31,			
2012	\$ 8,284	\$ 2,795	\$11,079
2013	8,587	2,247	10,834
2014	3,270	2,409	5,679
2015	197	1,724	1,921
2016	—	1,661	1,661
Thereafter	—	3,603	3,603
Total minimum lease payments	<u>\$ 20,338</u>	<u>\$ 14,439</u>	<u>\$34,777</u>

In February 2012, we signed a lease for a 94,543 square-foot building located in San Diego, California, with total minimum lease commitments of approximately \$13.7 million. The lease is for a period of eight years with a commencement date of July 1, 2012.

In April 2012, we signed a lease for 28,924 square-feet of office space located in San Jose, California with total minimum lease commitments of approximately \$1.6 million. The lease is for a period of approximately two years with a commencement date of April 5, 2012.

***Legal Proceedings***

From time to time, we are party to litigation and other legal proceedings in the ordinary course of business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position, results of operations or cash flows, except for those matters for which we have recorded a loss

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

contingency. We accrue for loss contingencies when it is both probable that we will incur the loss and when the amount of the loss can be reasonably estimated.

Generally, our subscription agreements require us to indemnify our customers for third-party intellectual property infringement claims. Any adverse determination related to intellectual property claims or litigation could prevent us from offering our service and adversely affect our financial condition and results of operations.

**(17) Information about Geographic Areas**

Revenues by geographic area, based on the billing location of the customer, were as follows for the periods presented (in thousands):

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Three Months Ended March 31,	
	2009	2010	2011	2010 (Unaudited)	2011	2011 (Unaudited)	2012 (Unaudited)
Revenues by geography							
North America	\$14,062	\$31,396	\$69,333	\$ 27,919	\$51,901	\$18,437	\$33,930
Europe	5,018	10,708	20,093	8,693	18,842	5,908	11,878
Asia Pacific and other	235	1,225	3,215	1,332	2,632	867	1,623
Total revenues	<u>\$19,315</u>	<u>\$43,329</u>	<u>\$92,641</u>	<u>\$ 37,944</u>	<u>\$73,375</u>	<u>\$25,212</u>	<u>\$47,431</u>

Long-lived assets by geographic area are as follows (in thousands):

	June 30,		December 31,	March 31,
	2010	2011	2011	2012 (Unaudited)
Long-lived assets:				
North America		\$1,013	\$7,859	\$ 15,820
Europe		500	1,391	4,537
Asia Pacific and other		185	217	338
Total long-lived assets		<u>\$1,698</u>	<u>\$9,467</u>	<u>\$ 20,695</u>
				<u>\$ 24,091</u>

**(18) Subsequent Events**

On February 21, 2012, we issued and sold 1,750,980 shares of common stock at a price of \$10.20 per share for gross proceeds of \$17.9 million in a private placement with a new stockholder. As part of this private placement, our founder sold 700,000 shares of common stock at the same price per share to this new stockholder.

On February 24, 2012, our founder repaid \$5.3 million to settle the outstanding receivable for withholding taxes associated with the sale of Series C and Series D preferred stock.

On March 27, 2012, we repurchased and subsequently cancelled 100,000 shares of common stock at a price of \$10.00 per share from a former employee.

From January 1 through March 30, 2012, we granted stock options under our 2005 Stock Plan to certain employees and directors to purchase 2,959,500 shares of common stock, having exercise prices ranging from \$6.50 to \$10.35 per share. Additionally, we granted RSUs under our 2005 Stock Plan to Frederic B. Luddy to purchase 1,000,000 shares of common stock. The RSUs vest annually over a four year period.

**SERVICENOW, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In April and May 2012, we repurchased and subsequently cancelled 42,498 and 35,000 shares of common stock, respectively, at a price of \$11.50 per share from former employees.

In April and May 2012, we granted stock options under our 2005 Stock Plan to certain employees to purchase 793,000 shares with an exercise price of \$11.00 per share and 799,750 shares with an exercise price of \$12.45 per share, respectively.

On April 27, 2012, our board of directors approved the Restated Certificate of Incorporation, Restated Bylaws, 2012 Equity Incentive Plan and the 2012 Employee Stock Purchase Plan, each to become effective in connection with the IPO.

In May 2012, we reincorporated into Delaware as ServiceNow, Inc.

We have evaluated subsequent events from the balance sheet date through March 30, 2012, the date at which the consolidated financial statements were available to be issued. For the reissuance of the consolidated financial statements, such evaluation was performed through May 23, 2012.



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**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, paid or payable by us in connection with the sale of the common stock being registered. All amounts shown are estimates except for the SEC registration fee and the FINRA filing fee and:

	Amount Paid or to be Paid
SEC registration fee	\$17,190
FINRA filing fee	15,500
New York Stock Exchange listing fee	*
Blue sky qualification fees and expenses	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous expenses	*
Total	\$ *

\* to be provided by amendment

**Item 14. Indemnification of Directors and Officers.**

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers under certain circumstances and subject to certain limitations. The terms of Section 145 of the Delaware General Corporation Law are sufficiently broad to permit indemnification under certain circumstances for liabilities, including reimbursement of expenses incurred, arising under the Securities Act of 1933, as amended, or the Securities Act.

As permitted by the Delaware General Corporation Law, the Registrant's restated certificate of incorporation to be effective upon the closing of this offering contains provisions that eliminate the personal liability of its directors for monetary damages for any breach of fiduciary duties as a director, except liability for the following:

- any breach of the director's duty of loyalty to the Registrant or its stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law (regarding unlawful dividends and stock purchases); or
- any transaction from which the director derived an improper personal benefit.

As permitted by the Delaware General Corporation Law, the Registrant's restated bylaws to be effective upon the closing of this offering, provide that:

- the Registrant is required to indemnify its directors and executive officers to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;

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- the Registrant may indemnify its other employees and agents as set forth in the Delaware General Corporation Law;
- the Registrant is required to advance expenses, as incurred, to its directors and executive officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions; and
- the rights conferred in the restated bylaws are not exclusive.

Prior to the closing of this offering, the Registrant has entered into indemnification agreements with each of its current directors and executive officers to provide these directors and executive officers additional contractual assurances regarding the scope of the indemnification set forth in the Registrant's restated certificate of incorporation and restated bylaws and to provide additional procedural protections. There is no pending litigation or proceeding involving a director or executive officer of the Registrant for which indemnification is sought. Reference is also made to Section 11 of the underwriting agreement to be filed as Exhibit 1.1 to this registration statement, which provides for the indemnification of executive officers, directors and controlling persons of the Registrant against certain liabilities. The indemnification provisions in the Registrant's restated certificate of incorporation, restated bylaws and the indemnification agreements entered into or to be entered into between the Registrant and each of its directors and executive officers may be sufficiently broad to permit indemnification of the Registrant's directors and executive officers for liabilities arising under the Securities Act.

The Registrant currently carries liability insurance for its directors and officers.

Three of Registrant's directors (Paul V. Barber, Douglas M. Leone and Charles E. Noell, III) are also indemnified by their employers with regard to their service on the Registrant's board of directors.

Reference is made to the following documents filed as exhibits to this Registration Statement regarding relevant indemnification provisions described above and elsewhere herein:

<u>Exhibit Document</u>	<u>Number</u>
Form of Underwriting Agreement.	1.1
Form of Restated Certificate of Incorporation to be effective upon the closing of this offering.	3.2
Form of Restated Bylaws to be effective upon the closing of this offering.	3.4
Third Amended and Restated Investors Rights Agreement dated November 25, 2009 among the Registrant and certain of its stockholders, as amended.	4.2
Form of Indemnification Agreement.	10.1

### **Item 15. Recent Sales of Unregistered Securities.**

Since April 1, 2009 and through March 31, 2012, the Registrant has issued and sold the following securities:

(1) From April 1, 2009 to March 31, 2012, we granted stock options under our 2005 Stock Plan to purchase 36,361,795 shares of common stock (net of expirations, forfeitures and cancellations) to our employees, directors and consultants, having exercise prices ranging from \$0.2813 to \$10.35 per share, as well as 1,000,000 RSUs to Frederic B. Luddy under our 2005 Stock Plan. Of these, options to purchase 3,374,686 shares of common stock have been exercised through March 31, 2012 for aggregate consideration of \$5,116,328, at exercise prices ranging from \$0.2813 to \$9.40 per share.

(2) In April 2009, we entered into a Series C Preferred Stock Purchase Agreement pursuant to which we issued and sold to accredited investors an aggregate of 983,606 shares of Series C preferred stock, at a purchase price of \$6.10 per share, for aggregate consideration of \$5,999,996.60. Upon the closing of this offering, these shares will convert into 7,868,848 shares of common stock.

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(3) In November 2009, we entered into a Series D Preferred Stock Purchase Agreement pursuant to which we issued and sold to accredited investors in multiple closings an aggregate of 2,990,635 shares of Series D preferred stock, at a purchase price of \$17.267333 per share, for aggregate consideration of \$51,640,290. Upon the closing of this offering, these shares will convert into 23,925,080 shares of common stock.

(4) In February 2012, we entered into a Common Stock Purchase Agreement pursuant to which we issued and sold to accredited investors an aggregate of 1,750,980 shares of common stock, at a purchase price of \$10.20 per share, for aggregate consideration of \$17,859,996.

The offers, sales and issuances of the securities described in paragraph (1) were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Rule 701 promulgated under the Securities Act. The recipients of such securities were our employees, directors or bona fide consultants and received the securities under our 2005 Stock Plan. Appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions had adequate access, through employment, business or other relationships, to information about us.

The offers, sales and issuances of the securities described in paragraphs (2), (3), (4) and (5) were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D in that the issuance of securities to the accredited investors did not involve a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited investor under Rule 501 of Regulation D.



**Item 16. Exhibits and Financial Statement Schedules.**

***(a) Exhibits.***

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1†	Form of Underwriting Agreement.
3.1	Certificate of Incorporation, as amended to date.
3.2*	Form of Restated Certificate of Incorporation to be effective upon closing of this offering.
3.3	Bylaws, as currently in effect.
3.4*	Form of Restated Bylaws to be effective upon closing of this offering.
4.1*	Form of Common Stock Certificate.
4.2*	Third Amended and Restated Investors Rights Agreement dated November 25, 2009 among the Registrant and certain of its stockholders, as amended.
5.1†	Opinion of Fenwick & West LLP.
10.1*	Form of Indemnification Agreement.
10.2*	2005 Stock Plan, Forms of Stock Option Agreement and Form of Restricted Stock Unit Agreement thereunder.
10.3*	2012 Equity Incentive Plan, to become effective on the date immediately prior to the date on which the registration statement is declared effective.
10.4*	2012 Employee Stock Purchase Plan, to become effective upon the closing of this offering.
10.5*	Employment Agreement dated May 2, 2011 among the Registrant and Frank Sloodman.
10.6*	Employment Agreement dated May 12, 2011 among the Registrant and Michael P. Scarpelli.
10.7*	Employment Agreement dated May 21, 2011 among the Registrant and David L. Schneider.
10.8*	Employment Agreement dated August 1, 2011 among the Registrant and Daniel R. McGee.
10.9*	Employment Agreement dated August 15, 2011 among the Registrant and Arne Josefsberg.
10.10*	Office Lease dated August 27, 2010 between the Registrant and Kilroy Realty, L.P.
10.11*	Office Lease dated February 14, 2012 between the Registrant and The Irvine Company LLC.
16.1*	Change in Certifying Accountant Letter
21.1*	Subsidiaries of the Registrant.
23.1	Consent of independent registered public accounting firm.
23.2†	Consent of Fenwick & West LLP (included in Exhibit 5.1).
24.1*	Power of Attorney. Reference is made to the signature page hereto.

† To be filed by amendment.

\* Previously filed.

***(b) Financial Statement Schedule.***

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or notes.

**Item 17. Undertakings.**

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on this 23<sup>rd</sup> day of May, 2012.

SERVICENOW, INC.

By: /s/ Frank Sloodman  
Frank Sloodman  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Frank Sloodman</u> Frank Sloodman	President, Chief Executive Officer and Director (Principal Executive Officer)	May 23, 2012
<u>/s/ Michael P. Scarpelli</u> Michael P. Scarpelli	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 23, 2012
<u>*</u> Frederic B. Luddy	Chief Product Officer and Director	May 23, 2012
<u>*</u> Paul V. Barber	Director	May 23, 2012
<u>*</u> Ronald E.F. Codd	Director	May 23, 2012
<u>*</u> Douglas M. Leone	Director	May 23, 2012
<u>*</u> Jeffrey A. Miller	Director	May 23, 2012
<u>*</u> Charles E. Noell, III	Director	May 23, 2012
<u>*</u> William L. Strauss	Director	May 23, 2012
*By: <u>/s/ Frank Sloodman</u> Frank Sloodman	Attorney-in-Fact	May 23, 2012

**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Description of Document</u></b>
1.1†	Form of Underwriting Agreement.
3.1	Certificate of Incorporation, as amended to date.
3.2*	Form of Restated Certificate of Incorporation to be effective upon closing of this offering.
3.3	Bylaws, as currently in effect.
3.4*	Form of Restated Bylaws to be effective upon closing of this offering.
4.1*	Form of Common Stock Certificate.
4.2*	Third Amended and Restated Investors Rights Agreement dated November 25, 2009 among the Registrant and certain of its stockholders, as amended.
5.1†	Opinion of Fenwick & West LLP.
10.1*	Form of Indemnification Agreement.
10.2*	2005 Stock Plan, Forms of Stock Option Agreement and Form of Restricted Stock Unit Agreement thereunder.
10.3*	2012 Equity Incentive Plan, to become effective on the date immediately prior to the date on which the registration statement is declared effective.
10.4*	2012 Employee Stock Purchase Plan, to become effective upon the closing of this offering.
10.5*	Employment Agreement dated May 2, 2011 among the Registrant and Frank Sloodman.
10.6*	Employment Agreement dated May 12, 2011 among the Registrant and Michael P. Scarpelli.
10.7*	Employment Agreement dated May 21, 2011 among the Registrant and David L. Schneider.
10.8*	Employment Agreement dated August 1, 2011 among the Registrant and Daniel R. McGee.
10.9*	Employment Agreement dated August 15, 2011 among the Registrant and Arne Josefsberg.
10.10*	Office Lease dated August 27, 2010 between the Registrant and Kilroy Realty, L.P.
10.11*	Office Lease dated February 14, 2012 between the Registrant and The Irvine Company LLC.
16.1*	Change in Certifying Accountant Letter
21.1*	Subsidiaries of the Registrant.
23.1	Consent of independent registered public accounting firm.
23.2†	Consent of Fenwick & West LLP (included in Exhibit 5.1)
24.1*	Power of Attorney. Reference is made to the signature page hereto.

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† To be filed by amendment.

\* Previously filed.

**SERVICENOW, INC.****RESTATED CERTIFICATE OF INCORPORATION**

(Pursuant to Sections 242 and 245 of the  
General Corporation Law of the State of Delaware)

ServiceNow, Inc., a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the state of Delaware (the “**General Corporation Law**”), does hereby certify as follows.

1. The name of this corporation is ServiceNow, Inc. This corporation was originally incorporated pursuant to the General Corporation Law on February 16, 2012.

2. The Board of Directors of this corporation duly adopted resolutions proposing to amend and restate the Certificate of Incorporation of this corporation, declaring said amendment and restatement to be advisable and in the best interests of this corporation and its stockholders, and authorizing the appropriate officers of this corporation to solicit the consent of the stockholders therefor, which resolution setting forth the proposed amendment and restatement is as follows.

RESOLVED, that the Certificate of Incorporation of this corporation be amended and restated in its entirety to read as set forth on Exhibit A attached hereto and incorporated herein by this reference.

Exhibit A referred to in the resolution above is attached hereto as Exhibit A and is hereby incorporated herein by this reference.

3. This Restated Certificate of Incorporation was approved by the holders of the requisite number of shares of this corporation in accordance with Section 228 of the General Corporation Law.

4. This Restated Certificate of Incorporation, which restates and integrates and further amends the provisions of this corporation’s Certificate of Incorporation, has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law.

**IN WITNESS WHEREOF**, this Restated Certificate of Incorporation has been executed by a duly authorized officer of this corporation on this 22 day of May 2012.

By: /s/ Frank Sloodman

Frank Sloodman, President and Chief  
Executive Officer

**Exhibit A**

**SERVICENOW, INC.**

**RESTATED CERTIFICATE OF INCORPORATION**

**ARTICLE I: NAME.**

The name of this corporation is ServiceNow, Inc. (the “**Corporation**”).

**ARTICLE II: REGISTERED OFFICE.**

The address of the registered office of the corporation in the State of Delaware is 3500 South Dupont Highway, City of Dover, County of Kent, DE 19901. The name of the registered agent of the corporation at that address is Incorporating Services, Ltd.

**ARTICLE III: PURPOSE.**

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

**ARTICLE IV: AUTHORIZED SHARES.**

The total number of shares of all classes of stock which the Corporation shall have authority to issue is (a) 200,000,000 shares of Common Stock, \$0.001 par value per share (“**Common Stock**”), and (b) 11,354,473 shares of Preferred Stock, \$0.001 par value per share (“**Preferred Stock**”). As of the effective date of this Restated Certificate of Incorporation (this “**Restated Certificate**”), 2,500,000 of the authorized shares of Preferred Stock are hereby designated Series A Preferred Stock (the “**Series A Preferred**”), 4,040,488 of the authorized shares of Preferred Stock are hereby designated Series B Preferred Stock (the “**Series B Preferred**”), 983,606 of the authorized shares of Preferred Stock are hereby designated Series C Preferred Stock (the “**Series C Preferred**”), and 3,830,379 of the authorized shares of Preferred Stock are hereby designated Series D Preferred Stock (the “**Series D Preferred**” and, together with the Series A Preferred, Series B Preferred and the Series C Preferred, the “**Series Preferred**”).

The following is a statement of the designations and the rights, powers and preferences, and the qualifications, limitations or restrictions thereof, in respect of each class of capital stock of the Corporation.

**A. COMMON STOCK**

**1. General.** The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights, powers and preferences of the holders of the Series Preferred set forth herein.

2. **Voting Rights.** The holders of the Common Stock are entitled to one vote for each share of Common Stock held at all meetings of stockholders (and written actions in lieu of meetings). Unless required by law, there shall be no cumulative voting. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by (in addition to any vote of the holders of one or more series of Series Preferred that may be required by the terms of the Restated Certificate) the affirmative vote of the holders of shares of capital stock of the Corporation representing a majority of the votes represented by all outstanding shares of capital stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law and without a separate class vote of the holders of the Common Stock.

## **B. SERIES PREFERRED**

The following rights, powers and preferences, and restrictions, qualifications and limitations, shall apply to the Series Preferred. Unless otherwise indicated, references to “Sections” in this Part B of this Article IV refer to sections of this Part B.

### **1. Dividends.**

(a) From and after the date of issuance of any share of Series A Preferred and Series B Preferred, dividends shall accrue on each such share of Series A Preferred and Series B Preferred at a rate equal to 8% of the applicable Original Issue Price (as defined below) per annum (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after November 25, 2009; provided that the Corporation shall be under no obligation to pay such accrued dividends except: (i) in connection with a Liquidation Event (as defined below) and pursuant to Section 3 hereof; or (ii) when and if the Board of Directors (the “**Board**”) determines to pay such accrued dividends. The right to dividends on shares of the Series A Preferred and Series B Preferred shall be cumulative.

(b) The “**Original Issue Price**” of the Series Preferred shall be \$1.00 for the Series A Preferred, \$1.253561 for the Series B Preferred, \$6.10 for the Series C Preferred and \$17.267333 for the Series D Preferred (in each case as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof (the “**Filing Date**”).

(c) So long as any shares of Series A Preferred or Series B Preferred are outstanding, the Corporation shall not pay or declare any dividend, whether in cash or property, or make any other distribution on the Common Stock, or purchase, redeem or otherwise acquire for value any shares of Common Stock until all accrued and unpaid dividends as set forth in Section 1(a) above on the Series A Preferred and Series B Preferred shall have been paid or declared or set aside, except for the following acquisitions:

(i) acquisitions of Common Stock by the Corporation pursuant to agreements approved by the Board which permit the Corporation to repurchase such shares at cost (or the lesser of cost or fair market value) upon termination of services to the Corporation; or

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(ii) acquisitions of Common Stock in exercise of the Corporation's right of first refusal to repurchase such shares.

(d) In the event dividends are paid on any share of Common Stock, the Corporation shall pay an additional dividend on all outstanding shares of Series Preferred in a per share amount equal (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of Common Stock.

(e) The provisions of Sections 1(c) and 1(d) shall not apply to any dividend payable solely in shares of Common Stock, or any repurchase of any outstanding securities of the Corporation that is approved by (i) the Board and (ii) the Series Preferred as may be required by the Restated Certificate.

## **2. Voting Rights.**

(a) General Rights. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of Series Preferred shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series Preferred held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Fractional votes shall not be permitted and any fractional voting rights available on an as-converted basis (after aggregating all shares into which shares of Series Preferred held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). Except as provided by law or by the other provisions of this Restated Certificate including but not limited to Article IV, Section A(2) regarding cumulative voting, holders of Series Preferred shall vote together with the holders of Common Stock as a single class on an as-converted basis, shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof, to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation.

(b) Separate Vote of Series Preferred. For so long as any shares of Series A Preferred, Series B Preferred, Series C Preferred or Series D Preferred remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding Series Preferred, voting together as a single class, shall be necessary for effecting or validating the following actions:

(i) Any amendment, alteration, or repeal of any provision of this Restated Certificate or the Bylaws of the Corporation (including any filing of a certificate of determination), whether by merger or consolidation or otherwise;

(ii) Any increase or decrease in the authorized number of shares of Common Stock or Preferred Stock;

(iii) Any increase in the authorized number of shares of Common Stock reserved for issuance under the Corporation's 2005 Stock Plan, as amended (the "**Plan**") such that, after such increase, the aggregate number of shares of Common Stock reserved for issuance under the Plan is greater than 59,580,440 (as may be adjusted for stock splits, stock dividends, combinations, recapitalizations and the like);

## **3.**



(iv) Any authorization or any designation, whether by reclassification or otherwise, or any issuance of any new class or series of stock or any other securities convertible into equity securities of the Corporation;

(v) Any purchase, redemption, repurchase or payment of dividends (other than dividends payable solely in shares of the Corporation's Common Stock) or other distributions with respect to any equity securities of the Corporation;

(vi) Any liquidation, dissolution or winding up, consolidation or merger into or with any other entity or entities, or sale of all or substantially all of the assets of the Corporation or any subsidiary of the Corporation, or any agreement by the Corporation or its stockholders regarding an Asset Transfer or Acquisition (each as defined in Section 3); or

(vii) Any increase or decrease in the authorized number of members of the Board.

(c) Separate Vote of Series D Preferred. For so long as any shares of Series D Preferred remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding Series D Preferred, voting as a separate class, shall be necessary for effecting or validating the following actions:

(i) Any adoption of any employee option plan or equity ownership plan relating to the securities of, or ownership in, the Corporation;

(ii) Any purchase, redemption, repurchase or payment of dividends (other than dividends payable solely in shares of the Corporation's Common Stock) or other distributions with respect to any equity securities of the Corporation;

(iii) Any increase in the authorized number of shares of Common Stock reserved for issuance under the Plan such that, after such increase, the aggregate number of shares of Common Stock reserved for issuance under the Plan is greater than 59,580,440 (as may be adjusted for stock splits, stock dividends, combinations, recapitalizations and the like).

(d) Election of Board of Directors.

(i) For so long as any shares of Series A Preferred remain outstanding, the holders of Series A Preferred, voting as a separate class, shall be entitled to elect one member of the Board at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office such director and to fill any vacancy caused by the resignation, death or removal of such director.

(ii) For so long as any shares of Series B Preferred remain outstanding, the holders of Series B Preferred, voting as a separate class, shall be entitled to elect one member of the Board at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office such director and to fill any vacancy caused by the resignation, death or removal of such director.

(iii) For so long as any shares of Series D Preferred remain outstanding, the holders of Series D Preferred, voting as a separate class, shall be entitled to elect one member of the Board at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office such director and to fill any vacancy caused by the resignation, death or removal of such director.

(iv) The holders of Common Stock, voting as a separate class, shall be entitled to elect one member of the Board at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office such director and to fill any vacancy caused by the resignation, death or removal of such director.

(v) The holders of Common Stock and Series Preferred, voting together as a single class on an as-if-converted basis, shall be entitled to elect all remaining members of the Board at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors.

### **3. Liquidation Rights.**

#### **(a) Preferred Stock.**

(i) Upon any Liquidation Event (as defined below), before any distribution or payment shall be made to the holders of any shares of Common Stock, Series A Preferred, Series B Preferred or Series D Preferred by reason of their ownership thereof, the holders of Series C Preferred shall be entitled to be paid out of the assets of the Corporation legally available for distribution, or the consideration received in such transaction, for each share of Series C Preferred held by them, an amount per share of Series C Preferred equal to the greater of (A) the sum of the Original Issue Price for the Series C Preferred plus all declared and unpaid dividends on the Series C Preferred, computed to the date of payment, and (B) such amount per share as would have been payable had all then outstanding shares of Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred been converted into Common Stock pursuant to Section 4 below immediately prior to such Liquidation Event. If, upon any such Liquidation Event, the assets of the Corporation (or the consideration received in such transaction) shall be insufficient to make payment in full to all holders of Series C Preferred of the liquidation preference set forth in this Section 3(a)(i), then such assets or consideration shall be distributed among the holders of the Series C Preferred ratably in proportion to the full amounts to which each holder would otherwise be entitled pursuant to this Section 3(a)(i).

(ii) Upon any Liquidation Event, after the payment of the full liquidation preference of the Series C Preferred as set forth in Section 3(a)(i) above and before any distribution or payment shall be made to the holders of any shares of Common Stock or Series D Preferred by reason of their ownership thereof, the holders of Series A Preferred and Series B Preferred shall be entitled to be paid out of the assets of the Corporation legally available for distribution, or the consideration received in such transaction, for each share

of Series A Preferred or Series B Preferred (as applicable) held by them, an amount per share of Series A Preferred or Series B Preferred (as applicable) equal to the greater of (A) the sum of the applicable Original Issue Price for the Series A Preferred or Series B Preferred (as applicable) plus all accrued and unpaid dividends on the Series A Preferred or the Series B Preferred (as applicable) (whether or not declared by the Board) plus any other dividends declared but unpaid thereon, in each case computed to the date of payment, and (B) such amount per share as would have been payable had all then outstanding shares of Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred been converted into Common Stock pursuant to Section 4 below immediately prior to such Liquidation Event. If the available assets remaining for distribution shall be insufficient to make payment in full to all holders of Series A Preferred and Series B Preferred of the liquidation preference set forth in this Section 3(a)(ii), then such assets or consideration shall be distributed among the holders of the Series A Preferred and Series B Preferred ratably in proportion to the full amounts to which each holder would otherwise be entitled pursuant to this Section 3(a)(ii), without preference in order of payment between the holders of Series A Preferred and Series B Preferred.

(iii) Upon any Liquidation Event, after the payment of the full liquidation preferences of the Series A Preferred, Series B Preferred and Series C Preferred as set forth in Sections 3(a)(i) and (ii) above and before any distribution or payment shall be made to the holders of any shares of Common Stock by reason of their ownership thereof, the holders of Series D Preferred shall be entitled to be paid out of the assets of the Corporation legally available for distribution, or the consideration received in such transaction, for each share of Series D Preferred held by them, an amount per share of Series D Preferred equal to the greater of (A) the sum of the applicable Original Issue Price for the Series D Preferred plus all declared and unpaid dividends on the Series D Preferred, computed to the date of payment, and (B) such amount per share as would have been payable had all then outstanding shares of Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred been converted into Common Stock pursuant to Section 4 below immediately prior to such Liquidation Event. If the available assets remaining for distribution shall be insufficient to make payment in full to all holders of Series D Preferred of the liquidation preference set forth in this Section 3(a)(iii), then such assets or consideration shall be distributed among the holders of the Series D Preferred ratably in proportion to the full amounts to which each holder would otherwise be entitled pursuant to this Section 3(a)(iii).

(iv) For purposes of clause (B) of the first sentence of each of clauses (i), (ii) and (iii) of this Section 3(a), the calculation of the preference amount in such clauses shall be made as if: (x) all shares of Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred had been converted into Common Stock pursuant to Section 4 below immediately prior to such Liquidation Event, and (y) all the amounts to be paid out of the assets of the Corporation legally available for distribution, or the consideration received in such transaction, were to be paid based on clause (B) of each such sentence, in each case regardless of whether the holders of shares of such shares shall be entitled to a liquidation preference based on clause (A) or (B) of each such sentence. In addition, in all cases the amounts to be paid out of the assets of the Corporation legally available for distribution, or the consideration received in such transaction, remain subject to the provisions of Section 3(e) below.

(b) After the payment of the full liquidation preferences of the Series Preferred as set forth in Sections 3(a) above, the assets of the Corporation legally available for distribution in such Liquidation Event (or the consideration received in such transaction), if any, shall be distributed ratably to the holders of the Common Stock.

(c) Liquidation Events.

(i) The following events shall be deemed to be a liquidation of the Corporation for purposes of this Section 3 (each, a “**Liquidation Event**”), unless the holders of at least a majority of the Series Preferred elect otherwise by written notice given to the Corporation at least five (5) business days prior to the effective date of any such event:

(A) a merger or consolidation in which (I) the Corporation is a constituent party or (II) a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger or consolidation, except, in case of either clause (I) or clause (II), any such merger or consolidation involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger or consolidation continue to represent, or are converted or exchanged for shares of capital stock which represent, immediately following such merger or consolidation at least a majority, by voting power (determined on a fully diluted basis assuming the exercise, conversion or exchange of all exercisable, convertible or exchangeable securities, respectively), of the capital stock of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation (provided that, for the purpose of this Section 3(c)(i), all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such merger or consolidation or upon conversion of Convertible Securities outstanding immediately prior to such merger or consolidation shall be deemed to be outstanding immediately prior to such merger or consolidation and, if applicable, converted or exchanged in such merger or consolidation on the same terms as the actual outstanding shares of Common Stock are converted or exchanged) (any such merger or consolidation, together with any transaction described in Section 3(c)(i)(C), an “**Acquisition**”);

(B) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Corporation or any subsidiary of the Corporation of all or substantially all the assets of the Corporation and its subsidiaries taken as a whole (an “**Asset Transfer**”);

(C) the sale, exchange or transfer, in a single transaction or series of related transactions, of at least a majority, by voting power (determined on a fully diluted basis assuming the exercise, conversion or exchange of all exercisable, convertible or exchangeable securities, respectively), of the outstanding shares of capital stock of the Corporation; or

(D) the voluntary or involuntary liquidation, dissolution or winding up of the Corporation.

(ii) The Corporation shall not have the power to effect any transaction constituting a Liquidation Event pursuant to Sections 3(c)(i)(A)(I) or (C) above unless the agreement or plan of merger or consolidation or other definitive purchase agreement provides that the consideration payable to the stockholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Sections 3(a), (b) and (e).

(iii) In the event of a Liquidation Event pursuant to Sections 3(c)(i)(A)(II), (B), (C) or (D) above, if the Corporation does not effect a dissolution of the Corporation under within 60 days after such Liquidation Event, then (A) the Corporation shall deliver a written notice to each holder of Series Preferred no later than the 60<sup>th</sup> day after the Liquidation Event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause (B) to require the redemption of such shares of Series Preferred, and (B) if the holders of at least a majority of the then outstanding shares of Series Preferred so request in a written instrument delivered to the Corporation not later than 75 days after such Liquidation Event, the Corporation shall use the consideration received by the Corporation for such Liquidation Event (net of any retained liabilities, as determined in good faith by the Board) (the “**Net Proceeds**”) to redeem, to the extent legally available therefor, on the 90<sup>th</sup> day after such Liquidation Event (the “**Liquidation Redemption Date**”), all outstanding shares of Series Preferred at a price per share equal to the respective amounts such shares would be entitled to receive determined in accordance with Sections 3(a), (b) and (e). In the event of a redemption pursuant to the preceding sentence, if the Net Proceeds are not sufficient to redeem all outstanding shares of Series Preferred, or if the Corporation does not have sufficient lawfully available funds to effect such redemption, the Corporation shall redeem each holder’s shares of Series Preferred in accordance with the priorities set forth in Sections 3(a), (b) and (e) to the fullest extent of such Net Proceeds or such lawfully available funds, as the case may be, and, where such redemption is limited by the amount of lawfully available funds, the Corporation shall redeem the remaining shares to have been redeemed in accordance with the priorities set forth in Sections 3(a), (b) and (e) as soon as practicable after the Corporation has funds legally available therefor. The provisions of Sections 5(b) through 5(d) below shall apply, with such necessary changes in the details thereof as are necessitated by the context, to the redemption of the Series Preferred pursuant to this Section 3(c)(iii). Prior to the distribution or redemption provided for in this Section 3(c)(iii), the Corporation shall not expend or dissipate the consideration received for such Liquidation Event, except to discharge expenses incurred in the ordinary course of business.

(d) The amount deemed paid or distributed to the holders of capital stock of the Corporation upon any such merger, consolidation, sale, lease, transfer, exclusive license, other disposition or redemption shall be the cash or the value of the property, rights or securities paid or distributed to such holders by the Corporation or the acquiring person, firm or other entity. If the amount deemed paid or distributed under this Section 3 is made in property other than in cash, the value of such distribution shall be the fair market value of such property, determined as follows:

(i) For securities not subject to investment letters or other similar restrictions on free marketability,

(A) if traded on a national securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange or market over the 20-trading day period ending three days prior to the closing of such transaction;

(B) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the 20-trading day period ending three days prior to the closing of such transaction; or

(C) if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board.

(ii) The method of valuation of securities subject to investment letters or other similar restrictions on free marketability (other than restrictions arising solely by virtue of a stockholder's status as an affiliate or former affiliate) shall take into account an appropriate discount (as determined in good faith by the Board) from the market value as determined pursuant to clause (A) above so as to reflect the approximate fair market value thereof.

(e) In the case of a Liquidation Event pursuant to Section 3(c)(i)(A) or (C) above, if any portion of the consideration payable to the stockholders of the Corporation is placed into escrow or is payable to the stockholders of the Corporation subject to contingencies, notwithstanding the operation of this Section 3 the agreement or plan of merger or consolidation or other definitive purchase agreement shall provide that the portion of such consideration that is placed in escrow and/or is subject to contingencies shall be allocated among the holders of capital stock of the Corporation pro rata based on the amount of such consideration otherwise payable to each stockholder pursuant to this Section 3 (such that each stockholder has the same percentage of such consideration payable to it placed into escrow and/or subject to contingencies, as applicable).

**4. Conversion Rights.** The holders of the Series Preferred shall have the following rights with respect to the conversion of the Series Preferred into shares of Common Stock (the "**Conversion Rights**"):

(a) **Optional Conversion.** Subject to and in compliance with the provisions of this Section 4, any shares of Series Preferred may, at the option of the holder, be converted at any time into fully-paid and nonassessable shares of Common Stock. The number of shares of Common Stock to which a holder of Series A Preferred shall be entitled upon conversion shall be the product obtained by multiplying the "Series A Preferred Conversion Rate" then in effect (determined as provided in Section 4(b)) by the number of shares of Series A Preferred being converted. The number of shares of Common Stock to which a holder of Series B Preferred shall be entitled upon conversion shall be the product obtained by multiplying the "Series B Preferred Conversion Rate" then in effect (determined as provided in Section 4(b)) by the number of shares of Series B Preferred being converted. The number of shares of Common Stock to which a holder of Series C Preferred shall be entitled upon conversion shall be the product obtained by multiplying the "Series C Preferred Conversion Rate" then in effect (determined as provided in Section 4(b)) by the number of Series C Preferred being converted. The number of shares of Common Stock to which a holder of Series D Preferred shall be entitled upon conversion shall be the product obtained by multiplying the "Series D Preferred Conversion Rate" then in effect (determined as provided in Section 4(b)) by the number of Series D Preferred being converted.

(b) Series Preferred Conversion Rate. The conversion rate in effect at any time for conversion of the Series A Preferred (the “**Series A Preferred Conversion Rate**”) shall be the quotient obtained by dividing the Original Issue Price of the Series A Preferred by the “Series A Preferred Conversion Price,” calculated as provided in Section 4(c). The conversion rate in effect at any time for conversion of the Series B Preferred (the “**Series B Preferred Conversion Rate**”) shall be the quotient obtained by dividing the Original Issue Price of the Series B Preferred by the “Series B Preferred Conversion Price,” calculated as provided in Section 4(c). The conversion rate in effect at any time for conversion of the Series C Preferred (the “**Series C Preferred Conversion Rate**”) shall be the quotient obtained by dividing the Original Issue Price of the Series C Preferred by the “Series C Conversion Price,” calculated as provided in Section 4(c). The conversion rate in effect at any time for conversion of the Series D Preferred (the “**Series D Preferred Conversion Rate**”) shall be the quotient obtained by dividing the Original Issue Price of the Series D Preferred by the “Series D Conversion Price,” calculated as provided in Section 4(c).

(c) The conversion price for the Series A Preferred shall initially be \$0.125 (the “**Series A Preferred Conversion Price**”). The conversion price for the Series B Preferred shall initially be \$0.156695 (the “**Series B Preferred Conversion Price**”). The conversion price for the Series C Preferred shall initially be \$0.7625 (the “**Series C Preferred Conversion Price**”). The conversion price for the Series D Preferred shall initially be \$2.1584165 (the “**Series D Preferred Conversion Price**”). The Series A Preferred Conversion Price, Series B Preferred Conversion Price, Series C Preferred Conversion Price and Series D Preferred Conversion Price (each, a “**Series Preferred Conversion Price**” and together, the “**Series Preferred Conversion Prices**”) shall be adjusted from time to time in accordance with this Section 4. All references to the Series Preferred Conversion Prices herein shall mean the Series Preferred Conversion Prices as so adjusted.

(d) Mechanics of Conversion. Each holder of Series Preferred who desires to convert the same into shares of Common Stock pursuant to this Section 4 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Series Preferred, and shall give written notice to the Corporation at such office that such holder elects to convert the same. Such notice shall state the number of shares and series of Series Preferred being converted. Thereupon, the Corporation shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled and shall promptly pay in cash (at the Common Stock’s fair market value determined by the Board as of the date of conversion) the value of any fractional share of Common Stock otherwise issuable to such holder of Series Preferred. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the certificates representing the shares of Series Preferred to be converted, and the person entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date.

(e) Adjustment for Stock Splits and Combinations. If at any time or from time to time after the Filing Date, the Corporation effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, the Series A Preferred Conversion Price, Series B Preferred Conversion Price, Series C Preferred Conversion Price and/or Series D Preferred Conversion Price, as applicable, in effect immediately before that subdivision shall be proportionately decreased. Conversely, if at any time or from time to time after the Filing Date the Corporation combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, the Series A Preferred Conversion Price, Series B Preferred Conversion Price, Series C Preferred Conversion Price and/or Series D Preferred Conversion Price, as applicable, in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 4(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Common Stock Dividends and Distributions. If at any time or from time to time after the Filing Date the Corporation pays to holders of Common Stock a dividend or other distribution in additional shares of Common Stock without a corresponding dividend or other distribution to holders of shares of Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, the Series A Preferred Conversion Price, Series B Preferred Conversion Price, Series C Preferred Conversion Price and/or Series D Preferred Conversion Price, as applicable, that is then in effect shall be decreased as of the time of such issuance, as provided below:

(i) The applicable Series Preferred Conversion Price shall be adjusted by multiplying the applicable Series Preferred Conversion Price then in effect by a fraction equal to:

(A) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance, and

(B) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

(ii) If the Corporation fixes a record date to determine which holders of Common Stock are entitled to receive such dividend or other distribution, the applicable Series Preferred Conversion Price shall be fixed as of the close of business on such record date and the number of shares of Common Stock shall be calculated immediately prior to the close of business on such record date; and

(iii) If such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the applicable Series Preferred Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the applicable Series Preferred Conversion Price shall be adjusted pursuant to this Section 4(f) to reflect the actual payment of such dividend or distribution.



(g) Adjustment for Reclassification, Exchange, Substitution, Reorganization, Merger or Consolidation. If at any time or from time to time after the Filing Date, the Common Stock issuable upon the conversion of the Series Preferred is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification, merger, consolidation or otherwise (other than a Liquidation Event as defined in Section 3 or a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 4), in any such event each holder of Series Preferred shall then have the right to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification, merger, consolidation or other change by holders of the maximum number of shares of Common Stock into which such shares of Series Preferred could have been converted immediately prior to such recapitalization, reclassification, merger, consolidation or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 4 with respect to the rights of the holders of Series Preferred after the capital reorganization to the end that the provisions of this Section 4 (including adjustment of the applicable Series Preferred Conversion Price then in effect and the number of shares issuable upon conversion of the Series Preferred) shall be applicable after that event and be as nearly equivalent as practicable.

(h) Sale of Shares Below Series Preferred Conversion Price.

(i) If at any time or from time to time after the Filing Date, the Corporation issues or sells, or is deemed by the express provisions of this Section 4(h) to have issued or sold, Additional Shares of Common Stock (as defined below), other than as provided in Section 4(e), 4(f) or 4(g) above, for an Effective Price (as defined below) less than the then effective Series A Preferred Conversion Price, Series B Preferred Conversion Price and/or Series C Preferred Conversion Price (a “**Qualifying Dilutive Issuance**”), then and in each such case, the then existing Series A Preferred Conversion Price, Series B Preferred Conversion Price and/or Series C Preferred Conversion Price, as applicable, shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the applicable Series Preferred Conversion Price in effect immediately prior to such issuance or sale by a fraction equal to:

(A) the numerator of which shall be (A) the number of shares of Common Stock deemed outstanding (as determined below) immediately prior to such issue or sale, plus (B) the number of shares of Common Stock which the Aggregate Consideration (as defined below) received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such then-existing applicable Series Preferred Conversion Price, and

(B) the denominator of which shall be the number of shares of Common Stock deemed outstanding (as determined below) immediately prior to such issue or sale plus the total number of Additional Shares of Common Stock so issued.

For the purposes of the preceding sentence, the number of shares of Common Stock deemed to be outstanding as of a given date shall be the sum of (A) the number of shares of Common Stock outstanding, (B) the number of shares of Common Stock into which the then outstanding shares of Series Preferred could be converted if fully converted on the day

immediately preceding the given date and (C) the number of shares of Common Stock which could be obtained through the exercise or conversion of all other rights, options and convertible securities outstanding on the day immediately preceding the given date.

No adjustment shall be made to the Series D Preferred Conversion Price pursuant to this Section 4(h), even if the Corporation issues or sells, or is deemed by the express provisions of this Section 4(h) to have issued or sold, Additional Shares of Common Stock for an Effective Price less than the then effective Series D Preferred Conversion Price.

(ii) No adjustment shall be made to any Series Preferred Conversion Price in an amount less than one cent per share. Any adjustment otherwise required by this Section 4(h) that is not required to be made due to the preceding sentence shall be included in any subsequent adjustment to the applicable Series Preferred Conversion Price.

(iii) For the purpose of making any adjustment required under this Section 4(h), the aggregate consideration received by the Corporation for any issue or sale of securities (the “**Aggregate Consideration**”) shall be defined as: (A) to the extent it consists of cash, the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Corporation in connection with such issue or sale but without deduction of any expenses payable by the Corporation, (B) to the extent it consists of property other than cash, the fair value of that property as determined in good faith by the Board, and (C) if Additional Shares of Common Stock, Convertible Securities (as defined below) or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration which covers both, the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iv) For the purpose of the adjustment required under this Section 4(h), if the Corporation issues or sells (x) Preferred Stock or other stock, options, warrants, purchase rights or other securities convertible into Additional Shares of Common Stock (such convertible stock or securities being herein referred to as “**Convertible Securities**”) or (y) rights or options for the purchase of Additional Shares of Common Stock or Convertible Securities and if the Effective Price of such Additional Shares of Common Stock is less than the Series A Preferred Conversion Price, Series B Preferred Conversion Price and/or Series C Preferred Conversion Price, in each case the Corporation shall be deemed to have issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such rights or options or Convertible Securities plus:

(A) in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise of such rights or options; and

(B) in the case of Convertible Securities, the minimum amounts of consideration, if any, payable to the Corporation upon the conversion thereof (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities); *provided* that if the minimum amounts of such consideration cannot be ascertained, but are a function of antidilution or similar protective clauses, the Corporation shall be deemed to have received the minimum amounts of consideration without reference to such clauses.

(C) If the minimum amount of consideration payable to the Corporation upon the exercise or conversion of rights, options or Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of antidilution adjustments, the Effective Price shall be recalculated using the figure to which such minimum amount of consideration is reduced; *provided further*, that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of such rights, options or Convertible Securities is subsequently increased, the Effective Price shall be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such rights, options or Convertible Securities.

(D) No further adjustment of the applicable Series Preferred Conversion Price, as adjusted upon the issuance of such rights, options or Convertible Securities, shall be made as a result of the actual issuance of Additional Shares of Common Stock or the exercise of any such rights or options or the conversion of any such Convertible Securities. If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the applicable Series Preferred Conversion Price as adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the applicable Series Preferred Conversion Price which would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted, plus the consideration, if any, actually received by the Corporation (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) on the conversion of such Convertible Securities, *provided* that such readjustment shall not apply to prior conversions of Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable.

(v) For the purpose of making any adjustment to any Series Preferred Conversion Price required under this Section 4(h), **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued by the Corporation or deemed to be issued pursuant to this Section 4(h) (including shares of Common Stock subsequently reacquired or retired by the Corporation), other than:

(A) shares of Common Stock issued upon conversion of the Series Preferred;

(B) shares of Common Stock and/or options, warrants or other Common Stock purchase rights and the Common Stock issued pursuant to such options, warrants or other rights (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like after the Filing Date) issued after the Filing Date to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are unanimously approved by the Board;

(C) shares of Common Stock issued pursuant to the exercise of Convertible Securities outstanding as of the Filing Date;

(D) shares of Common Stock or Convertible Securities issued for consideration other than cash pursuant to a merger, purchase of substantially all of the assets, consolidation, acquisition, strategic alliance or similar business combination transaction; provided that the issuance of shares therein has been unanimously approved by the Board;

(E) shares of Common Stock or Convertible Securities issued pursuant to any equipment loan or leasing arrangement, credit agreements, real property leasing arrangement, or debt financing from a bank or similar financial institution; provided that the issuance of shares therein has been unanimously approved by the Board;

(F) shares of Common Stock or Convertible Securities issued to third-party service providers in exchange for or as partial consideration for services rendered to the Corporation; provided that the issuance of shares therein has been unanimously approved by the Board; and

(G) shares of Common Stock or Convertible Securities issued in connection with strategic transactions involving the Corporation and other entities, including (i) joint ventures, manufacturing, marketing, customer, vendor or distribution arrangements or (ii) collaboration, technology transfer or development arrangements, including technology licenses; provided that the issuance of shares therein has been unanimously approved by the Board.

References to Common Stock in the subsections of this clause (v) above shall mean all shares of Common Stock issued by the Corporation or deemed to be issued pursuant to this Section 4(h). The “**Effective Price**” of Additional Shares of Common Stock shall mean the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Corporation under this Section 4(h), into the Aggregate Consideration received, or deemed to have been received by the Corporation for such issuance under this Section 4(h), for such Additional Shares of Common Stock.

(vi) In the event that the Corporation issues or sells, or is deemed to have issued or sold, Additional Shares of Common Stock in a Qualifying Dilutive Issuance (the “**First Dilutive Issuance**”), then in the event that the Corporation issues or sells, or is deemed to have issued or sold, Additional Shares of Common Stock in a Qualifying Dilutive Issuance other than the First Dilutive Issuance pursuant to the same instruments as the First Dilutive Issuance (a “**Subsequent Dilutive Issuance**”), then, and in each such case upon a Subsequent Dilutive Issuance, the applicable Series Preferred Conversion Price shall be reduced to the Series Preferred Conversion Price that would have been in effect had the First Dilutive Issuance and each Subsequent Dilutive Issuance all occurred on the closing date of the First Dilutive Issuance.

(i) Certificate of Adjustment. In each case of an adjustment or readjustment of a Series Preferred Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of the Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable, if the Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable, is then convertible pursuant to this Section 4, the Corporation, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable, at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the applicable Series Preferred Conversion Price at the time in effect, (iii) the number of Additional Shares of Common Stock and (iv) the type and amount, if any, of other property which at the time would be received upon conversion of the Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable.

(j) Notices of Record Date. Upon (i) any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any (x) capital reorganization of the Corporation, reclassification or recapitalization of the capital stock of the Corporation, or merger or consolidation of the Corporation or any subsidiary of the Corporation with or into any other entity or entities, (y) sale of all or substantially all of the assets of the Corporation or any subsidiary of the Corporation, or (z) voluntary or involuntary dissolution, liquidation or winding up of the Corporation, the Corporation shall mail to each holder of Series Preferred at least 10 days prior to the record date specified therein (or such shorter period approved by the holders of a majority of the outstanding Series Preferred, voting together as a single class) a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such reorganization, reclassification, consolidation, merger, asset sale, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed as to when the holders of record of Common Stock or Preferred Stock (or other securities) shall be entitled to exchange their shares of Common Stock or Preferred Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, asset sale, dissolution, liquidation or winding up.

(k) Automatic Conversion.

(i) Each share of Series Preferred shall automatically be converted into shares of Common Stock, based on the then-effective applicable Series Preferred Conversion Price, (A) as to the Series A Preferred, at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series A Preferred, (B) as to the

Series B Preferred, at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series B Preferred, (C) as to the Series C Preferred, at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series C Preferred, (D) as to the Series D Preferred, at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series D Preferred, or (E) as to all shares of the Series Preferred, immediately upon the closing of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation in which the gross cash proceeds to the Corporation (after underwriting discounts and commissions) are at least \$50,000,000 (a “**Qualified IPO**”).

(ii) Upon the occurrence of any of the events specified in Section 4(k)(i) above, the outstanding shares of Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable, shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent; *provided, however*, that the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificates evidencing such shares of Series Preferred are either delivered to the Corporation or its transfer agent as provided below, or the holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificates. Upon the occurrence of such automatic conversion of the Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, the holders of Series A Preferred, Series B Preferred, Series C Preferred and/or Series D Preferred, as applicable, shall surrender the certificates representing such shares at the office of the Corporation or any transfer agent for the Series Preferred. Thereupon, there shall be issued and delivered to such holder promptly at such office and in its name as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Common Stock into which the shares of Series Preferred surrendered were convertible on the date on which such automatic conversion occurred, and any accrued and unpaid dividends shall be paid in accordance with the provisions of Section 4(d).

(l) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Series Preferred. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series A Preferred, Series B Preferred, Series C Preferred or Series D Preferred, as applicable, by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Corporation shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Common Stock’s fair market value (as determined by the Board) on the date of conversion.

(m) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series Preferred, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series Preferred. If at any time the number of

authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series Preferred, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(n) Notices. Any notice required by the provisions of this Section 4 shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with verification of receipt. All notices shall be addressed to each holder of record at the address of such holder appearing on the books of the Corporation.

(o) Payment of Taxes. The Corporation will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of shares of Common Stock upon conversion of shares of Series Preferred, excluding any tax or other charge imposed in connection with any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of Series Preferred so converted were registered.

## **5. Redemption.**

(a) The Corporation shall be obligated to redeem the Series A Preferred, Series B Preferred and Series C Preferred as follows:

(i) The holders of a majority of the then outstanding shares of Series A Preferred, voting together as a separate class, a majority of the then outstanding shares of Series B Preferred, voting together as a separate class, and the holders of a majority of the then outstanding shares of Series C Preferred, voting together as a separate class, may require the Corporation, to the extent it may lawfully do so, to redeem all of the then outstanding Series Preferred in three (3) annual installments beginning not prior to November 25, 2014, and ending on the date two (2) years from such first redemption date (each a “**Redemption Date**”); *provided* that the Corporation shall receive written notice of such election of the Series A Preferred, Series B Preferred and Series C Preferred specifying the first such Redemption Date at least 30 days prior to the first such Redemption Date. The Corporation shall effect such redemptions on each Redemption Date by paying in cash in exchange for the shares of Series Preferred to be redeemed on such Redemption Date a sum equal to the applicable Original Issue Price per share of Series Preferred to be redeemed (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like after the Filing Date) plus, in the case of the Series A Preferred and Series B Preferred, an amount equal to 8% of the applicable Original Issue Price per annum on such shares calculated from the date that the first share of Series A Preferred or Series B Preferred, as applicable, was issued, until the applicable Redemption Date. The total amount to be paid for the Series Preferred on any Redemption Date is hereinafter referred to as the “**Redemption Price**.” The number of shares of Series Preferred that the Corporation shall be required to redeem on any one Redemption Date shall be equal to the amount determined by dividing (A) the aggregate number of shares of Series Preferred outstanding immediately prior to

the Redemption Date by (B) the number of remaining applicable Redemption Dates (including the Redemption Date to which such calculation applies). Shares subject to redemption pursuant to this Section 5(a) shall be redeemed first from each holder of Series C Preferred and then on a pro rata basis from the holders of Series A Preferred and Series B Preferred, in proportion to the redemption amount each such holder is entitled to receive and without preference in order of payment between the holders of Series A Preferred and Series B Preferred.

(ii) As soon as reasonably practicable prior to each Redemption Date, the Corporation shall send a notice (a “**Redemption Notice**”) to all holders of Series Preferred to be redeemed setting forth (A) the Redemption Price for the shares to be redeemed; and (B) the place at which such holders may obtain payment of the Redemption Price upon surrender of their share certificates. If the Corporation does not have sufficient funds legally available to redeem all shares to be redeemed at the applicable Redemption Date, then it shall so notify such holders and shall redeem such shares first from each holder of Series C Preferred and then on a pro rata basis (based on the portion of the aggregate Redemption Price payable to them) among the holders of the Series A Preferred and Series B Preferred to the extent possible and shall redeem the remaining shares to be redeemed as soon as sufficient funds are legally available.

(b) On or prior to each Redemption Date, the Corporation shall deposit (to the extent it has sufficient funds legally available to redeem the shares of the Series Preferred to be redeemed on such Redemption Date) the Redemption Price of all shares to be redeemed on such Redemption Date with a bank or trust company having aggregate capital and surplus in excess of \$100,000,000, as a trust fund, with irrevocable instructions and authority to the bank or trust company to pay, on and after such Redemption Date, the Redemption Price of the shares to their respective holders upon the surrender of their share certificates. Any moneys deposited by the Corporation pursuant to this Section 5(b) for the redemption of shares thereafter converted into shares of Common Stock pursuant to Section 4 hereof no later than the 5th day preceding the applicable Redemption Date shall be returned to the Corporation forthwith upon such conversion. The balance of any funds deposited by the Corporation pursuant to this Section 5(b) remaining unclaimed at the expiration of 2 years following such Redemption Date shall be returned to the Corporation promptly upon its written request.

(c) On or after each such Redemption Date, each holder of shares of Series Preferred to be redeemed shall surrender such holder’s certificates representing such shares to the Corporation in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by such certificates are redeemed, a new certificate shall be issued representing the unredeemed shares. From and after such Redemption Date, unless there shall have been a default in payment of the Redemption Price or the Corporation is unable to pay the Redemption Price due to not having sufficient legally available funds, all rights of the holder of shares of Series Preferred to be redeemed as holder of Series Preferred with respect to those shares (except the right to receive the Redemption Price without interest upon surrender of their certificates), shall cease and terminate with respect to such shares; *provided* that in the event that shares of Series Preferred are not redeemed due to a default in payment by the Corporation or because the Corporation does not have sufficient legally available funds, such shares of Series Preferred shall remain outstanding and shall be entitled to all of the rights and preferences provided herein until redeemed.



(d) In the event of a call for redemption of any shares of Series Preferred, the Conversion Rights (as defined in Section 4) for such Series Preferred shall terminate as to the shares designated for redemption at the close of business on the last business day preceding the applicable Redemption Date, unless default is made in payment of the Redemption Price or the Corporation does not have sufficient funds legally available to pay the Redemption Price.

(e) The Corporation shall not be obligated to redeem or repurchase the Series D Preferred pursuant to this Section 5 or otherwise, and the holders of shares of Series D Preferred shall not have the right to have their shares of Series D Preferred redeemed or repurchased by the Corporation or to obligate the Corporation to redeem or repurchase their shares of Series D Preferred.

6. **No Reissuance of Series Preferred.** Any shares of Series Preferred that are redeemed or otherwise acquired by the Corporation or any of its subsidiaries shall be automatically and immediately retired and shall not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights, powers and preferences granted to the holders of Series Preferred following the close of business on the third day preceding the Redemption Date for such shares.

7. **Waiver.** Any of the rights, powers, preferences and other terms of a series of the Series Preferred or the Series Preferred as a class that are set forth herein may be waived on behalf of all holders of such series of Series Preferred or the Series Preferred as a class by the affirmative written consent or vote of the holders of at least a majority of the shares of such series of Series Preferred or such Series Preferred as a class that are then outstanding, treating any convertible Series Preferred as-if converted to Common Stock.

8. **Notice of Record Date.** In the event:

(a) the Corporation shall set a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Series Preferred) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, or any Deemed Liquidation Event; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series Preferred a notice specifying, as the case may be, (i) the record date for such dividend, distribution or subscription right, and the amount and character of such dividend, distribution or subscription right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place,

and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Series Preferred) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series Preferred and the Common Stock. Such notice shall be sent (A) at least 20 days prior to the earlier of the record date or effective date for the event specified in such notice or (B) such fewer number of days as may be approved the holders of a majority of the outstanding shares of Series Preferred acting as a single class on an as-converted basis.

**9. Notices.** Except as otherwise provided herein, any notice required or permitted by the provisions of this Article IV to be given to a holder of shares of Series Preferred shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation for such holder, given by the holder to the Corporation for the purpose of notice or given by electronic communication in compliance with the provisions of the General Corporation Law, and shall be deemed sent upon such mailing or electronic transmission. If no such address appears or is given, notice shall be deemed given at the place where the principal executive office of the Corporation is located.

#### **ARTICLE V: DIRECTOR LIABILITY.**

**A. LIMITATION.** To the fullest extent permitted by law, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the General Corporation Law or any other law of the State of Delaware is amended after approval by the stockholders of this Article V to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law as so amended. Any repeal or modification of the foregoing provisions of this Article V by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

**B. INDEMNIFICATION.** To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers and agents of the Corporation (and any other persons to which General Corporation Law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law.

**C. MODIFICATION.** Any amendment, repeal or modification of the foregoing provisions of this Article V shall not adversely affect any right or protection of any director, officer or other agent of the Corporation existing at the time of such amendment, repeal or modification.

## **ARTICLE VI: PREEMPTIVE RIGHTS.**

No stockholder of the Corporation shall have a right to purchase shares of capital stock of the Corporation sold or issued by the Corporation except to the extent that such a right may from time to time be set forth in a written agreement between the Corporation and any stockholder.

## **ARTICLE VII: STOCK REPURCHASES.**

In connection with repurchases by the Corporation of its Common Stock from any employee, consultant, director or other service provider to the Corporation or any of its wholly owned subsidiaries pursuant to agreements under which the Corporation has the option to repurchase such shares at cost upon the occurrence of certain events, such as the termination of employment, Sections 502 and 503 of the Corporations Code of the State of California shall not apply in all or in part with respect to such repurchases.

## **ARTICLE VIII: BYLAW PROVISIONS.**

**A. AMENDMENT OF BYLAWS.** The Board is expressly empowered to adopt, amend or repeal the Bylaws of the Corporation and the stockholders shall also have the power to adopt, amend or repeal the Bylaws of the Corporation; *provided however*, that, in addition to any vote of the holders of any class or series of stock of the Corporation required by law or by this Restated Certificate, the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the Bylaws of the Corporation, except that an amendment changing the authorized number of directors may only be adopted as provided in Article II Section 2.1 of the Bylaws.

**B. NUMBER OF DIRECTORS.** Subject to any additional vote required by the Restated Certificate, the number of directors of the Corporation shall be determined in the manner set forth in the Bylaws of the Corporation.

**C. BALLOT.** Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

**D. MEETINGS AND BOOKS.** Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board or in the Bylaws of the Corporation.

## **ARTICLE IX: CORPORATE OPPORTUNITIES.**

The Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, or in being informed about, an Excluded Opportunity. An “***Excluded Opportunity***” is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of, (i) any director of the Corporation who is not an employee of the Corporation or any of its subsidiaries, or (ii) any holder of Preferred Stock or any affiliate, partner, member, director, stockholder, employee, agent or other related person of any such holder, other than someone who is an employee of the Corporation or any of its subsidiaries (collectively, “***Covered Persons***”), unless

such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person’s capacity as a director of the Corporation.

**ARTICLE X: CREDITOR AND STOCKHOLDER COMPROMISES**

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of §291 of Title 8 of the General Corporation Law or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under §279 of Title 8 of the General Corporation Law order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

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**SERVICENOW, INC.**

a Delaware Corporation

**BYLAWS**

As Adopted February 16, 2012

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**SERVICENOW, INC.**

a Delaware Corporation

**BYLAWS**

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**SERVICENOW, INC.**

a Delaware Corporation

**BYLAWS**

As Adopted February 16, 2012

**ARTICLE I: STOCKHOLDERS**

**Section 1.1: Annual Meetings.** Unless members of the Board of Directors of the Corporation (the “**Board**”) are elected by written consent in lieu of an annual meeting, as permitted by Section 211 of the Delaware General Corporation Law (the “**DGCL**”) and these Bylaws, an annual meeting of stockholders shall be held for the election of directors at such date and time as the Board shall each year fix. The meeting may be held either at a place, within or without the State of Delaware, or by means of remote communication as the Board in its sole discretion may determine. Any proper business may be transacted at the annual meeting.

**Section 1.2: Special Meetings.** Special meetings of stockholders for any purpose or purposes may be called at any time by the Chairperson of the Board, the Chief Executive Officer, the President, the holders of shares of the Corporation that are entitled to cast not less than ten percent (10%) of the total number of votes entitled to be cast by all stockholders at such meeting, or by a majority of the “**Whole Board**,” which shall mean the total number of authorized directors, whether or not there exist any vacancies in previously authorized directorships. Special meetings may not be called by any other person or persons. If a special meeting of stockholders is called by any person or persons other than by a majority of the members of the Board, then such person or persons shall request such meeting by delivering a written request to call such meeting to the Chairperson of the Board, the Chief Executive Officer, or the President, and the Board shall then determine the time and date of such special meeting, which shall be held not more than sixty (60) days nor less than thirty-five (35) days after the written request to call such special meeting was delivered to the Chairperson of the Board, the Chief Executive Officer, or the President. The special meeting may be held either at a place, within or without the State of Delaware, or by means of remote communication as the Board in its sole discretion may determine.

**Section 1.3: Notice of Meetings.** Notice of all meetings of stockholders shall be given in writing or by electronic transmission in the manner provided by law (including, without limitation, as set forth in Section 7.1.1 of these Bylaws) stating the date, time and place, if any, of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise required by applicable law or the Certificate of Incorporation of the Corporation (the “**Certificate of Incorporation**”), such notice shall be given not less than ten (10), nor more than sixty (60), days before the date of the meeting to each stockholder of record entitled to vote at such meeting.

**Section 1.4: Adjournments.** Any stockholders’ meeting may be adjourned to another time, date and place (if any) by the vote of a majority of the shares represented at such meeting or the chairperson of the meeting. Any meeting of stockholders may adjourn from time to time, and notice need not be given of any such adjourned meeting if the time, date and place (if any)



thereof and the means of remote communications (if any) by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than thirty (30) days, or if a new record date is fixed for the adjourned meeting, then a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting. To the fullest extent permitted by law, the Board may postpone or reschedule any previously scheduled special or annual meeting of stockholders before it is to be held, in which case notice shall be provided to the stockholders of the new date, time and place, if any, of the meeting as provided in Section 1.3 above.

**Section 1.5: Quorum.** At each meeting of stockholders the holders of a majority of the voting power of the shares of stock entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business, unless otherwise required by applicable law. If a quorum shall fail to attend any meeting, the chairperson of the meeting or the holders of a majority of the shares entitled to vote who are present, in person or by proxy, at the meeting may adjourn the meeting. Shares of the Corporation's stock belonging to the Corporation (or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation are held, directly or indirectly, by the Corporation), shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation or any other corporation to vote any shares of the Corporation's stock held by it in a fiduciary capacity and to count such shares for purposes of determining a quorum.

**Section 1.6: Organization.** Meetings of stockholders shall be presided over by such person as the Board may designate, or, in the absence of such a person, the Chairperson of the Board, or, in the absence of such person, the President of the Corporation, or, in the absence of such person, such person as may be chosen by the holders of a majority of the voting power of the shares entitled to vote who are present, in person or by proxy, at the meeting. Such person shall be chairperson of the meeting and, subject to Section 1.11 hereof, shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seems to him or her to be in order. The Secretary of the Corporation shall act as secretary of the meeting, but in such person's absence the chairperson of the meeting may appoint any person to act as secretary of the meeting.

**Section 1.7: Voting; Proxies.** Each stockholder entitled to vote at a meeting of stockholders, or to take corporate action by written consent without a meeting, may authorize another person or persons to act for such stockholder by proxy. Such a proxy may be prepared, transmitted and delivered in any manner permitted by applicable law. Except as may be required in the Certificate of Incorporation, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Unless otherwise provided by applicable law, the Certificate of Incorporation or these Bylaws, every matter other than the election of directors shall be decided by the affirmative vote of the holders of a majority of the voting power of the shares of stock entitled to vote on such matter that are present in person or represented by proxy at the meeting and are voted for or against the matter.

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**Section 1.8: Fixing Date for Determination of Stockholders of Record.**

1.8.1 Generally. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or to take corporate action by written consent without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, except as otherwise required by law, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board and which shall not be more than sixty (60), nor less than ten (10), days before the date of such meeting, nor, except as provided in Section 1.8.2 below, more than sixty (60) days prior to any other action. If no record date is fixed by the Board, then the record date shall be as provided by applicable law. To the fullest extent provided by law, a determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

1.8.2 Stockholder Request for Action by Written Consent. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent without a meeting shall, by written notice to the Secretary of the Corporation, request the Board to fix a record date for such consent. Such request shall include a brief description of the action proposed to be taken. Unless a record date has previously been fixed by the Board for the written consent pursuant to this Section 1.8, the Board shall, within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. Such record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board. If no record date has been fixed by the Board within ten (10) days after the date on which such a request is received, then the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation as required by law. If no record date has been fixed by the Board and prior action by the Board is required by applicable law, then the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board adopts the resolution taking such prior action.

**Section 1.9: List of Stockholders Entitled to Vote.** A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either on a reasonably accessible electronic network as permitted by law (provided that the information required to gain access to the list is provided with the notice of the meeting) or during ordinary business hours at the principal place of business of the Corporation. If the meeting is held at a location where stockholders may attend in person, the list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present at the meeting. If the meeting is held solely by means of remote communication, then the list shall be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access the list shall be provided with the notice of the meeting.

## **Section 1.10: Action by Written Consent of Stockholders.**

1.10.1 **Procedure.** Unless otherwise provided by the Certificate of Incorporation, any action required or permitted to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed in the manner permitted by law by the holders of outstanding stock having not less than the number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in the State of Delaware, to its principal place of business or to an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the agent of the Corporation's registered office in the State of Delaware shall be by hand or by certified or registered mail, return receipt requested. Written stockholder consents shall bear the date of signature of each stockholder who signs the consent in the manner permitted by law and shall be delivered to the Corporation as provided in Section 1.10.2 below. No written consent shall be effective to take the action set forth therein unless, within sixty (60) days of the earliest dated consent delivered to the Corporation in the manner required by law, written consents signed by a sufficient number of stockholders to take the action set forth therein are delivered to the Corporation in the manner required by law.

1.10.2 **Form of Consent** A telegram, cablegram or other electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxy holder, or a person or persons authorized to act for a stockholder or proxy holder, shall be deemed to be written, signed and dated for the purposes of this section, provided that any such telegram, cablegram or other electronic transmission sets forth or is delivered with information from which the Corporation can determine (a) that the telegram, cablegram or other electronic transmission was transmitted by the stockholder or proxy holder or by a person or persons authorized to act for the stockholder or proxy holder and (b) the date on which such stockholder or proxy holder or authorized person or persons transmitted such telegram, cablegram or electronic transmission. The date on which such telegram, cablegram or electronic transmission is transmitted shall be deemed to be the date on which such consent was signed. No consent given by telegram, cablegram or other electronic transmission shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a Corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested. Notwithstanding the foregoing limitations on delivery, consents given by telegram, cablegram or other electronic transmission may be otherwise delivered to the principal place of business of the Corporation or to an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded if, to the extent and in the manner provided by resolution of the Board. Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

1.10.3 Notice of Consent. Prompt notice of the taking of corporate action by stockholders without a meeting by less than unanimous written consent of the stockholders shall be given to those stockholders who have not consented thereto in writing and, who, if the action had been taken at a meeting, would have been entitled to notice of the meeting, if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the Corporation as required by law. If the action which is consented to is such as would have required the filing of a certificate under the DGCL if such action had been voted on by stockholders at a meeting thereof, then if the DGCL so requires, the certificate so filed shall state, in lieu of any statement required by the DGCL concerning any vote of stockholders, that written stockholder consent has been given in accordance with Section 228 of the DGCL.

#### **Section 1.11: Inspectors of Elections.**

1.11.1 Applicability. Unless otherwise required by the Certificate of Incorporation or by the DGCL, the following provisions of this Section 1.11 shall apply only if and when the Corporation has a class of voting stock that is: (a) listed on a national securities exchange; (b) authorized for quotation on an interdealer quotation system of a registered national securities association; or (c) held of record by more than two thousand (2,000) stockholders. In all other cases, observance of the provisions of this Section 1.11 shall be optional, and at the discretion of the Board.

1.11.2 Appointment. The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors of election to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting.

1.11.3 Inspector's Oath. Each inspector of election, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability.

1.11.4 Duties of Inspectors. At a meeting of stockholders, the inspectors of election shall (a) ascertain the number of shares outstanding and the voting power of each share, (b) determine the shares represented at a meeting and the validity of proxies and ballots, (c) count all votes and ballots, (d) determine and retain for a reasonable period of time a record of the disposition of any challenges made to any determination by the inspectors, and (e) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors.

1.11.5 Opening and Closing of Polls. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced by the chairperson of the meeting at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

1.11.6 **Determinations.** In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in connection with proxies in accordance with any information provided pursuant to Section 211(a)(2)(B)(i) of the DGCL, or Sections 211(e) or 212(c)(2) of the DGCL, ballots and the regular books and records of the Corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors at the time they make their certification of their determinations pursuant to this Section 1.11 shall specify the precise information considered by them, including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

## **ARTICLE II: BOARD OF DIRECTORS**

**Section 2.1: Number; Qualifications.** The Board shall consist of not less than five nor more than nine members. The exact number of directors shall be set, within the limits specified above, by a resolution duly adopted by the Whole Board or by the stockholders in accordance with the Certificate of Incorporation. The indefinite number of directors may be changed, or a definite number may be fixed without provision for an indefinite number, by a duly adopted amendment to the Certificate of Incorporation or by an amendment to this bylaw duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the fixed number or the minimum number of directors to a number less than five cannot be adopted if the votes cast against its adoption at a meeting, or the shares not consenting in the case of an action by written consent, are equal to more than sixteen and two-thirds percent ( $16\frac{2}{3}\%$ ) of the outstanding shares entitled to vote thereon. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. Directors need not be stockholders of the Corporation.

**Section 2.2: Election; Resignation; Removal; Vacancies.** The Board shall initially consist of the person or persons elected by the incorporator or named in the Corporation's initial Certificate of Incorporation. Each director shall hold office until the next annual meeting of stockholders and until such director's successor is elected and qualified, or until such director's earlier death, resignation or removal. Any director may resign at any time upon written notice to the Corporation. Subject to the rights of any holders of Preferred Stock then outstanding: (a) any director or the entire Board may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors and (b) any vacancy occurring in the Board for any reason, and any newly created directorship resulting from any increase in the authorized number of directors to be elected by all stockholders having the right to vote as a single class, may be filled by the stockholders, by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

**Section 2.3: Regular Meetings.** Regular meetings of the Board may be held at such places, within or without the State of Delaware, and at such times as the Board may from time to time determine. Notice of regular meetings need not be given if the date, times and places thereof are fixed by resolution of the Board.

**Section 2.4: Special Meetings.** Special meetings of the Board may be called by the Chairperson of the Board, the President any Vice President, the Secretary, any two directors, or the holders of at least twenty-five percent (25%) of the then outstanding Series A Preferred Stock and may be held at any time, date or place, within or without the State of Delaware, as the person or persons calling the meeting shall fix. Notice of the time, date and place of such meeting shall be given, orally, in writing or by electronic transmission (including electronic mail), by the person or persons calling the meeting to all directors at least four (4) days before the meeting if the notice is mailed, or at least twenty-four (24) hours before the meeting if such notice is given by telephone, hand delivery, telegram, telex, mailgram, facsimile, electronic mail or other means of electronic transmission. Unless otherwise indicated in the notice, any and all business may be transacted at a special meeting.

**Section 2.5: Remote Meetings Permitted.** Members of the Board, or any committee of the Board, may participate in a meeting of the Board or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to conference telephone or other communications equipment shall constitute presence in person at such meeting.

**Section 2.6: Quorum; Vote Required for Action.** Subject to Section 2.2 above regarding the ability of the members of the Board to fill a vacancy on the Board, at all meetings of the Board a majority of the Whole Board shall constitute a quorum for the transaction of business. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date or time without further notice thereof. Except as otherwise provided herein or in the Certificate of Incorporation, or required by law, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board.

**Section 2.7: Organization.** Meetings of the Board shall be presided over by the Chairperson of the Board, or in such person's absence by the President, or in such person's absence by a chairperson chosen at the meeting. The Secretary shall act as secretary of the meeting, but in such person's absence the chairperson of the meeting may appoint any person to act as secretary of the meeting.

**Section 2.8: Written Action by Directors.** Any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee, respectively, in the minute books of the Corporation. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

**Section 2.9: Powers.** The Board may, except as otherwise required by law or the Certificate of Incorporation, exercise all such powers and manage and direct all such acts and things as may be exercised or done by the Corporation.

**Section 2.10: Compensation of Directors.** Members of the Board, as such, may receive, pursuant to a resolution of the Board, fees and other compensation for their services as directors, including without limitation their services as members of committees of the Board.

### ARTICLE III: COMMITTEES

**Section 3.1: Committees.** The Board may designate one or more committees, each committee to consist of two or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, the member or members thereof present at any meeting of such committee who are not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in a resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to the following matters: (a) approving, adopting, or recommending to the stockholders any action or matter (other than the election or removal of members of the Board) expressly required by the DGCL to be submitted to stockholders for approval or (b) adopting, amending or repealing any bylaw of the Corporation.

**Section 3.2: Committee Rules.** Unless the Board otherwise provides, each committee designated by the Board may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article II of these Bylaws.

### ARTICLE IV: OFFICERS

**Section 4.1: Generally.** The officers of the Corporation shall consist of a Chief Executive Officer (who may be the Chairperson of the Board or the President), a Secretary and a Treasurer and may consist of such other officers, including a Chief Financial Officer, Chief Technology Officer and one or more Vice Presidents, as may from time to time be appointed by the Board. All officers shall be elected by the Board; *provided, however*, that the Board may empower the Chief Executive Officer of the Corporation to appoint any officer other than the Chairperson of the Board, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer. Each officer shall hold office until such person's successor is appointed or until such person's earlier resignation, death or removal. Any number of offices may be held by the same person. Any officer may resign at any time upon written notice to the Corporation. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled by the Board.

**Section 4.2: Chief Executive Officer.** Subject to the control of the Board and such supervisory powers, if any, as may be given by the Board, the powers and duties of the Chief Executive Officer of the Corporation are:

- (a) To act as the general manager and, subject to the control of the Board, to have general supervision, direction and control of the business and affairs of the Corporation;
- (b) Subject to Article I, Section 1.6, to preside at all meetings of the stockholders;

(c) Subject to Article I, Section 1.2, to call special meetings of the stockholders to be held at such times and, subject to the limitations prescribed by law or by these Bylaws, at such places as he or she shall deem proper; and

(d) To affix the signature of the Corporation to all deeds, conveyances, mortgages, guarantees, leases, obligations, bonds, certificates and other papers and instruments in writing which have been authorized by the Board or which, in the judgment of the Chief Executive Officer, should be executed on behalf of the Corporation; to sign certificates for shares of stock of the Corporation; and, subject to the direction of the Board, to have general charge of the property of the Corporation and to supervise and control all officers, agents and employees of the Corporation.

The President shall be the Chief Executive Officer of the Corporation unless the Board shall designate another officer to be the Chief Executive Officer. If there is no President, and the Board has not designated any other officer to be the Chief Executive Officer, then the Chairperson of the Board shall be the Chief Executive Officer.

**Section 4.3: Chairperson of the Board.** The Chairperson of the Board shall have the power to preside at all meetings of the Board and shall have such other powers and duties as provided in these Bylaws and as the Board may from time to time prescribe.

**Section 4.4: President.** The Chief Executive Officer shall be the President of the Corporation unless the Board shall have designated one individual as the President and a different individual as the Chief Executive Officer of the Corporation. Subject to the provisions of these Bylaws and to the direction of the Board, and subject to the supervisory powers of the Chief Executive Officer (if the Chief Executive Officer is an officer other than the President), and subject to such supervisory powers and authority as may be given by the Board to the Chairperson of the Board, and/or to any other officer, the President shall have the responsibility for the general management and control of the business and affairs of the Corporation and the general supervision and direction of all of the officers, employees and agents of the Corporation (other than the Chief Executive Officer, if the Chief Executive Officer is an officer other than the President) and shall perform all duties and have all powers that are commonly incident to the office of President or that are delegated to the President by the Board.

**Section 4.5: Vice President.** Each Vice President shall have all such powers and duties as are commonly incident to the office of Vice President, or that are delegated to him or her by the Board or the Chief Executive Officer. A Vice President may be designated by the Board to perform the duties and exercise the powers of the Chief Executive Officer in the event of the Chief Executive Officer's absence or disability.

**Section 4.6: Chief Financial Officer.** The Chief Financial Officer shall be the Treasurer of the Corporation unless the Board shall have designated another officer as the Treasurer of the Corporation. Subject to the direction of the Board and the Chief Executive Officer, the Chief Financial Officer shall perform all duties and have all powers that are commonly incident to the office of Chief Financial Officer.



**Section 4.7: Treasurer.** The Treasurer shall have custody of all moneys and securities of the Corporation. The Treasurer shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions. The Treasurer shall also perform such other duties and have such other powers as are commonly incident to the office of Treasurer, or as the Board or the Chief Executive Officer may from time to time prescribe.

**Section 4.8: Secretary.** The Secretary shall issue or cause to be issued all authorized notices for, and shall keep, or cause to be kept, minutes of all meetings of the stockholders and the Board. The Secretary shall have charge of the corporate minute books and similar records and shall perform such other duties and have such other powers as are commonly incident to the office of Secretary, or as the Board or the Chief Executive Officer may from time to time prescribe.

**Section 4.9: Delegation of Authority.** The Board may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

**Section 4.10: Removal.** Any officer of the Corporation shall serve at the pleasure of the Board and may be removed at any time, with or without cause, by the Board; provided that if the Board has empowered the Chief Executive Officer to appoint any Vice Presidents of the Corporation, then such Vice Presidents may be removed by the Chief Executive Officer. Such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation.

## **ARTICLE V: STOCK**

**Section 5.1: Certificates.** The shares of capital stock of the Corporation shall be represented by certificates; *provided, however*, that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock may be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation (or the transfer agent or registrar, as the case may be). Notwithstanding the adoption of such resolution by the Board, every holder of stock that is a certificated security shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairperson or Vice-Chairperson of the Board, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, certifying the number of shares owned by such stockholder in the Corporation. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue. If any holder of uncertificated shares elects to receive a certificate, the Corporation (or the transfer agent or registrar, as the case may be) shall, to the extent permitted under applicable law and rules, regulations and listing requirements of any stock exchange or stock market on which the Corporation's shares are listed or traded, cease to provide annual statements indicating such holder's holdings of shares in the Corporation.

**Section 5.2: Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates.** The Corporation may issue a new certificate of stock, or uncertificated shares, in the place of any certificate previously issued by it, alleged to have been lost, stolen or destroyed, upon

the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to agree to indemnify the Corporation and/or to give the Corporation a bond sufficient to indemnify it, against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

**Section 5.3: Other Regulations.** The issue, transfer, conversion and registration of stock certificates and uncertificated securities shall be governed by such other regulations as the Board may establish.

## ARTICLE VI: INDEMNIFICATION

**Section 6.1: Indemnification of Officers and Directors.** Each person who was or is made a party to, or is threatened to be made a party to, or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**"), by reason of the fact that such person (or a person of whom such person is the legal representative), is or was a member of the Board or officer of the Corporation or a Reincorporated Predecessor (as defined below) or is or was serving at the request of the Corporation or a Reincorporated Predecessor as a member of the board of directors, officer or trustee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans (for purposes of this Article VI, an "**Indemnitee**"), shall be indemnified and held harmless by the Corporation to the fullest extent permitted by applicable law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes and penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith, provided such Indemnitee acted in good faith and in a manner that the Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or Proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful. Such indemnification shall continue as to an Indemnitee who has ceased to be a director or officer and shall inure to the benefit of such Indemnities' heirs, executors and administrators. Notwithstanding the foregoing, the Corporation shall indemnify any such Indemnitee seeking indemnity in connection with a Proceeding (or part thereof) initiated by such Indemnitee only if such Proceeding (or part thereof) was authorized by the Board or such indemnification is authorized by an agreement approved by the Board. As used herein, the term the "**Reincorporated Predecessor**" means a corporation that is merged with and into the Corporation in a statutory merger where (a) the Corporation is the surviving corporation of such merger and (b) the primary purpose of such merger is to change the corporate domicile of the Reincorporated Predecessor to Delaware.

**Section 6.2: Advance of Expenses.** The Corporation shall pay all expenses (including attorneys' fees) incurred by such an Indemnitee in defending any such Proceeding as they are incurred in advance of its final disposition; provided, however, that (a) if the DGCL then so requires, the payment of such expenses incurred by such an Indemnitee in advance of the final disposition of such Proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it should be

determined ultimately by final judicial decision from which there is no appeal that such Indemnitee is not entitled to be indemnified under this Article VI or otherwise; and (b) the Corporation shall not be required to advance any expenses to a person against whom the Corporation directly brings a claim, in a Proceeding, alleging that such person has breached such person's duty of loyalty to the Corporation, committed an act or omission not in good faith or that involves intentional misconduct or a knowing violation of law, or derived an improper personal benefit from a transaction.

**Section 6.3: Non-Exclusivity of Rights.** The rights conferred on any person in this Article VI shall not be exclusive of any other right that such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote or consent of stockholders or disinterested directors, or otherwise. Additionally, nothing in this Article VI shall limit the ability of the Corporation, in its discretion, to indemnify or advance expenses to persons whom the Corporation is not obligated to indemnify or advance expenses pursuant to this Article VI.

**Section 6.4: Indemnification Contracts.** The Board is authorized to cause the Corporation to enter into indemnification contracts with any director, officer, employee or agent of the Corporation, or any person serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing indemnification or advancement rights to such person. Such rights may be greater than those provided in this Article VI.

**Section 6.5: Right of Indemnitee to Bring Suit.** The following shall apply to the extent not in conflict with any indemnification contract provided for in Section 6.4 above.

6.5.1 **Right to Bring Suit.** If a claim under Section 6.1 or 6.2 of this Article VI is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (a) any suit brought by the Indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the Indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (b) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the Indemnitee has not met any applicable standard for indemnification set forth in applicable law.

6.5.2 **Effect of Determination.** Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in applicable law, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel or its stockholders) that the Indemnitee has not met

such applicable standard of conduct, shall create a presumption that the Indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the Indemnitee, be a defense to such suit.

6.5.3 **Burden of Proof.** In any suit brought by the Indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the Indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article VI, or otherwise, shall be on the Corporation.

**Section 6.6: Nature of Rights.** The rights conferred upon Indemnitees in this Article VI shall be contract rights and such rights shall continue as to an Indemnitee who has ceased to be a director, officer or trustee and shall inure to the benefit of the Indemnitee's heirs, executors and administrators. Any amendment, repeal or modification of any provision of this Article VI that adversely affects any right of an Indemnitee or an Indemnitee's successors shall be prospective only, and shall not adversely affect any right or protection conferred on a person pursuant to this Article VI and existing at the time of such amendment, repeal or modification.

## **ARTICLE VII: NOTICES**

### **Section 7.1: Notice.**

7.1.1 **Form and Delivery.** Except as otherwise specifically required in these Bylaws (including, without limitation, Section 7.1.2 below) or by law, all notices required to be given pursuant to these Bylaws shall be in writing and may, (a) in every instance in connection with any delivery to a member of the Board, be effectively given by hand delivery (including use of a delivery service), by depositing such notice in the mail, postage prepaid, or by sending such notice by prepaid telegram, cablegram, overnight express courier, facsimile, electronic mail or other form of electronic transmission and (b) be effectively be delivered to a stockholder when given by hand delivery, by depositing such notice in the mail, postage prepaid or, if specifically consented to by the stockholder as described in Section 7.1.2 of this Article VII by sending such notice by telegram, cablegram, facsimile, electronic mail or other form of electronic transmission. Any such notice shall be addressed to the person to whom notice is to be given at such person's address as it appears on the records of the Corporation. The notice shall be deemed given (a) in the case of hand delivery, when received by the person to whom notice is to be given or by any person accepting such notice on behalf of such person, (b) in the case of delivery by mail, upon deposit in the mail, (c) in the case of delivery by overnight express courier, when dispatched, and (d) in the case of delivery via telegram, cablegram, facsimile, electronic mail or other form of electronic transmission, when dispatched.

7.1.2 **Electronic Transmission.** Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under any provision of the DGCL, the Certificate of Incorporation, or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given in accordance with Section 232 of the DGCL. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if (a) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent and (b) such inability

becomes known to the Secretary or an Assistant Secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given pursuant to this Section 7.1.2 shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of such posting and the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder.

7.1.3 **Affidavit of Giving Notice.** An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice has been given in writing or by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

**Section 7.2: Waiver of Notice.** Whenever notice is required to be given under any provision of the DGCL, the Certificate of Incorporation or these Bylaws, a written waiver of notice, signed by the person entitled to notice, or waiver by electronic transmission by such person, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any waiver of notice.

## **ARTICLE VIII: INTERESTED DIRECTORS**

**Section 8.1: Interested Directors.** No contract or transaction between the Corporation and one or more of its members of the Board or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are members of the board of directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee thereof that authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose, if: (a) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; (b) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board, a committee thereof, or the stockholders.

**Section 8.2: Quorum.** Interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

## **ARTICLE IX: MISCELLANEOUS**

**Section 9.1: Fiscal Year.** The fiscal year of the Corporation shall be determined by resolution of the Board.

**Section 9.2: Seal.** The Board may provide for a corporate seal, which may have the name of the Corporation inscribed thereon and shall otherwise be in such form as may be approved from time to time by the Board.

**Section 9.3: Form of Records.** Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on or by means of, or be in the form of, diskettes, CDs, or any other information storage device or method, provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records pursuant to any provision of the DGCL.

**Section 9.4: Reliance upon Books and Records.** A member of the Board, or a member of any committee designated by the Board shall, in the performance of such person's duties, be fully protected in relying in good faith upon records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or committees of the Board, or by any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

**Section 9.5: Certificate of Incorporation Governs.** In the event of any conflict between the provisions of the Certificate of Incorporation and Bylaws, the provisions of the Certificate of Incorporation shall govern.

**Section 9.6: Severability.** If any provision of these Bylaws shall be held to be invalid, illegal, unenforceable or in conflict with the provisions of the Certificate of Incorporation, then such provision shall nonetheless be enforced to the maximum extent possible consistent with such holding and the remaining provisions of these Bylaws (including without limitation, all portions of any section of these Bylaws containing any such provision held to be invalid, illegal, unenforceable or in conflict with the Certificate of Incorporation, that are not themselves invalid, illegal, unenforceable or in conflict with the Certificate of Incorporation) shall remain in full force and effect.

## **ARTICLE X: AMENDMENT**

Unless otherwise required by the Certificate of Incorporation or these Bylaws, stockholders of the Corporation holding at least a majority of the voting power of the Corporation's outstanding voting stock then entitled to vote at an election of directors shall have the power to adopt, amend or repeal Bylaws; provided, however, that if the Certificate of Incorporation sets forth the number of authorized directors of the Corporation, then the authorized number of directors may be changed only by an amendment of the Certificate

of Incorporation. To the extent provided in the Certificate of Incorporation and these Bylaws, the Board shall also have the power to adopt, amend or repeal Bylaws of the Corporation other than a bylaw or an amendment of a bylaw changing the authorized number of directors (except to fix the authorized number of directors pursuant to a bylaw providing for a variable number of directors).

## **ARTICLE XI: RIGHT OF FIRST REFUSAL**

**Section 11.1: Right of First Refusal.** No stockholder shall sell, assign, pledge, or in any manner transfer any of the shares of stock of the Corporation or any right or interest therein, whether voluntarily or by operation of law, or by gift or otherwise, except by a transfer which meets the requirements hereinafter set forth in this bylaw. A transfer shall be deemed to include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by request, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfer to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary or by operation of law, directly or indirectly, of any of the stockholder's shares.

(a) If the stockholder proposes to sell or otherwise transfer any of his shares of stock, then the stockholder shall first give written notice thereof to the Corporation. The notice shall name the proposed transferee and state the number of shares to be transferred, the proposed consideration, and all other terms and conditions of the proposed transfer.

(b) For twenty (20) days following receipt of such notice, the Corporation shall have the option to purchase all or any portion of the shares specified in the notice at the price and upon the terms set forth in such notice. In the event of a gift, property settlement or other transfer in which the proposed transferee is not paying the full price for the shares, and that is not otherwise exempted from the provisions of this Section 11.1, the price shall be deemed to be the fair market value of the stock at such time as determined in good faith by the Board. In the event the Corporation elects to purchase all of the shares or a lesser portion of the shares, it shall give written notice to the transferring stockholder of its election and settlement for said shares shall be made as provided below in paragraph (d).

(c) The Corporation may assign its rights hereunder.

(d) In the event the Corporation and/or its assignee(s) elect to acquire any of the shares of the transferring stockholder as specified in said transferring stockholder's notice, the secretary of the Corporation shall so notify the transferring stockholder and settlement thereof shall be made in cash within thirty (30) days after the secretary of the Corporation receives said transferring stockholder's notice; provided that if the terms of payment set forth in said transferring stockholder's notice were other than cash, the Corporation and/or its assignee(s) may pay for said shares (a) on the same terms and conditions set forth in said transferring stockholder's notice or (b) may pay cash.

(e) In the event the Corporation and/or its assignees(s) do not elect to acquire all of the shares specified in the transferring stockholder's notice, said transferring stockholder may, within the sixty-day period following the expiration of the rights granted to the Corporation and/or its assignees(s) herein, transfer the shares specified in said transferring stockholder's

notice which were not acquired by the Corporation and/or its assignees(s) as specified in said transferring stockholder's notice, subject to other applicable restrictions, on the transfer of such shares. All shares so sold by said transferring stockholder (other than shares sold to the Corporation) shall continue to be subject to the provisions of this bylaw in the same manner as before said transfer.

(f) Anything to the contrary contained herein notwithstanding, the following transactions shall be exempt from the provisions of this bylaw:

(1) A stockholder's transfer of any or all shares held either during such stockholder's lifetime or on death by will or intestacy to such stockholder's immediate family or to any custodian or trustee for the account of such stockholder or such stockholder's immediate family or to any limited partnership of which the stockholder, members of such stockholder's immediate family or any trust for the account of such stockholder or such stockholder's immediate family will be the general or limited partner(s) of such partnership. "Immediate family" as used herein shall mean spouse, lineal descendant, father, mother, brother, or sister, ex-spouse, or domestic partner of the stockholder making such transfer.

(2) A stockholder's bona fide gift.

(3) A stockholder's bona fide pledge or mortgage of any shares, with a commercial lending institution, provided that any subsequent transfer of said shares by said institution shall be conducted in the manner set forth in this bylaw.

(4) A stockholder's transfer of any or all of such stockholder's shares to the Corporation or to any other stockholder of the Corporation.

(5) A stockholder's transfer of any or all of such stockholder's shares to a person who, at the time of such transfer, is an officer or director of the Corporation.

(6) A corporate stockholder's transfer of any or all of its shares pursuant to and in accordance with the terms of any merger, consolidation, reclassification of shares or capital reorganization of the corporate stockholder, or pursuant to a sale of all or substantially all of the stock or assets of a corporate stockholder.

(7) A corporate stockholder's transfer of any or all of its shares to any or all of its stockholders.

(8) A transfer by a stockholder which is a limited or general partnership to any or all of its partners or former partners.

(9) A transfer by a stockholder pursuant to a registration statement filed in connection with a Qualified IPO (as defined in the Certificate of Incorporation).

(10) A transfer by a stockholder pursuant to an Acquisition (as defined in the Certificate of Incorporation).



In any transfer pursuant to (1) through (8) above, the transferee, assignee, or other recipient shall receive and hold such stock subject to the provisions of this bylaw, and there shall be no further transfer of such stock except in accordance with this bylaw.

(g) The provisions of this bylaw may be waived with respect to any transfer by the Corporation upon duly authorized action of its board of directors. This bylaw may be amended or repealed only by a duly authorized action of the board of directors.

(h) Any sale or transfer, or purported sale or transfer, of securities of the Corporation shall be null and void unless the terms, conditions, and provisions of this bylaw are strictly observed and followed.

(i) The foregoing right of first refusal shall terminate on the earliest to occur of the following:

(1) On June 24, 2015;

(2) Upon the date securities of the Corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended; or

(3) Upon the closing of an Acquisition (as defined in the Certificate of Incorporation).

(j) The certificates representing shares of stock of the Corporation shall bear on their face the following legend so long as the foregoing right of first refusal remains in effect:

“the shares represented by this Certificate are subject to a right of first refusal option in favor of the Corporation and/or its Assignee(s), as provided in the Bylaws of the Corporation.”

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**CERTIFICATION OF BYLAWS  
OF  
SERVICENOW, INC.**

a Delaware Corporation

I, Robert Specker, certify that I am Secretary of ServiceNow, Inc., a Delaware corporation (the “***Corporation***”), that I am duly authorized to make and deliver this certification, that the attached Bylaws are a true and complete copy of the Bylaws of the Corporation in effect as of the date of this certificate.

Dated: March 27, 2012

/s/ Robert Specker

Robert Specker, Secretary

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amendment No. 2 to the Registration Statement on Form S-1 of ServiceNow, Inc. (formerly Service-now.com) of our report dated March 30, 2012, except for Note 18, “Subsequent Events,” as to which the date is May 23, 2012, relating to the financial statements of ServiceNow, Inc., which appears in such Registration Statement. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

San Diego, California

May 23, 2012

CERTAIN PORTIONS OF THIS LETTER AS FILED VIA EDGAR HAVE BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR THE OMITTED PORTIONS, WHICH WERE REPLACED WITH THE FOLLOWING PLACEHOLDER “[\*\*\*\*]” IN THE LETTER FILED VIA EDGAR. THE OMITTED PORTIONS HAVE BEEN BRACKETED IN THIS UNREDACTED COPY OF THE LETTER FOR EASE OF IDENTIFICATION.

May 24, 2012

**VIA EDGAR AND HAND DELIVERY**

Securities and Exchange Commission  
Division of Corporation Finance  
100 F Street N.E.  
Washington, D.C. 20549

Attention: Barbara C. Jacobs, Assistant Director  
Matthew Crispino, Staff Attorney  
Patrick Gilmore, Accounting Branch Chief  
David Edgar, Staff Accountant

**Re: ServiceNow, Inc.**  
**Registration Statement on Form S-1**  
**Initially Filed March 30, 2012**  
**File No. 333-180486**

Ladies and Gentlemen:

We are submitting this supplemental letter on behalf of ServiceNow, Inc. (the “***Company***”) in connection with the review by the staff (the “***Staff***”) of the Securities and Exchange Commission (the “***Commission***”) of Amendment No. 2 to the Company’s Registration Statement on Form S-1 (File No. 333-180486), originally filed on March 30, 2012, as amended to date (the “***Registration Statement***”) and to address prior comment 18 and the last sentence of prior comment 19 received by letter from the Staff dated April 26, 2012. Because of the commercially sensitive nature of the information contained herein, this submission is accompanied by the Company’s request for confidential treatment of selected portions of this letter pursuant to Rule 83 of the Commission’s Rules on Information and Requests, 17 C.F.R. § 200.83 and the Freedom of Information Act.

For the convenience of the Staff, we are providing to the Staff by hand delivery copies of this letter. In this letter, we have recited the prior comments from the Staff in italicized, bold type and have followed each comment with the Company’s response.

**CONFIDENTIAL TREATMENT REQUESTED BY SERVICENOW, INC.**  
**SERVICENOW-01**

18. *When determined, please tell us your proposed IPO price, when you first initiated discussions with underwriters and when the underwriters first communicated their estimated price range and amount for your stock.*

The Company supplementally advises the Staff that, on May 21, 2012, representatives of Morgan Stanley & Co. LLC, the lead underwriter for the Company's initial public offering and on behalf of the underwriters, advised the Company that, based on then-current market conditions, that they would recommend a preliminary price range of \$[\*\*\*\*] and \$[\*\*\*\*] for this offering. The Company also notes that it currently expects to include a \$2.00 price range within this range in its preliminary prospectus, but the parameters of that final price range will be subject to then-current market conditions, continuing discussions with the underwriters and further business developments impacting the Company. The Company initiated formal discussions with potential underwriters regarding the offering on February 9, 2012. Prior to May 21, 2012, the Company had not held specific discussions with the underwriters regarding the possible price range for the offering. The range above does not take into account the current lack of liquidity for the Company's common stock and assumes a successful initial public offering with no weighting attributed to any other outcome for the Company's business, such as remaining a privately held company.

The Company will set forth a bona fide preliminary price range in a pre-effective amendment to the Registration Statement prior to the distribution of any preliminary prospectus.

19. *Also, when your estimated IPO price is known and included in your registration statement, please reconcile and explain the difference between the fair value of the underlying stock as of the most recent valuation date and the midpoint of your IPO offering range.*

The Company supplementally advises the Staff that, as described beginning on page 66 of Amendment No. 2, the Company regularly performs contemporaneous valuations of the Company's common stock to assist the Company's Board of Directors (the "**Board**") in its determination of the common stock's fair value for purposes of granting stock options. The Board considers numerous objective and subjective factors, including the factors set forth on page 66 of Amendment No. 2, the Company's initial public offering and the most recent valuation report prepared by an independent valuation specialist. The Board, as applicable, also determines that the assumptions and inputs used in connection with such contemporaneous valuations reflect the Board's and management's best estimate of the business condition, prospects and operating performance of the Company at each valuation date.

On May 7, 2012, the Company granted options to purchase an aggregate of 799,750 shares of common stock to certain employees of the Company. The Company has not granted any other equity awards following that date. At the time the option grants were approved, the Board determined that the fair value of the shares of the Company's common stock underlying such option grants was \$12.45 per share. The Board based its determination of the fair value of the Company's common stock on the factors described

**CONFIDENTIAL TREATMENT REQUESTED BY SERVICENOW, INC.  
SERVICENOW-02**

on page 73 of the Registration Statement and on the valuation report that the Company received on May 7, 2012, from its independent valuation specialist (the “**Valuation Report**”), which concluded that, as of May 7, 2012, the fair market value of the Company’s common stock was \$12.45 per share.

The Company supplementally provides the Staff the following discussion regarding the significant factors contributing to the difference between the midpoint of the preliminary price range and the fair value of the Company’s common stock. The Company believes the difference between the fair value of its common stock on May 7, 2012, as determined by the Board, and the midpoint of the preliminary price range estimated by the Company is the result of the following factors:

- the preliminary price range necessarily assumes that the initial public offering has occurred and a public market for the Company’s common stock has been created, and therefore excludes any marketability or illiquidity discount for the Company’s common stock. Conversely, the fair value of the Company’s common stock on May 7, 2012, as determined by the Board and Compensation Committee appropriately reflected a risk-adjusted discount rate of 28.1% and a non-marketability discount of 4% based on a liquidity event expected to occur given the ongoing uncertainty of the timing of the public offering as well as increased volatility in the capital markets;
- the differences in the mix and projected time periods utilized by the underwriters in their comparable company analysis discussed with the Company as compared to the metrics utilized in the valuation considered by the Board and Compensation Committee. Specifically, the underwriters applied various current financial metrics to their projections of the Company’s financial results and the financial results of comparable companies for 2013. In contrast, the analysis in the previous valuation considered by the Board and Compensation Committee estimated the fair value of the Company’s common stock on both trailing financial data (10% weighting) and, for the comparable companies used in their analysis, one year of projected financial data (80% weighting), and two year projected financial data (10% weighting);
- the consideration of recent financial, trading and market statistics of comparable companies and a broader set of software companies, including some that have either recently completed (Splunk, Inc., Jive Software, Inc. and Bazaarvoice, Inc.) or currently have pending initial public offerings, discussed between the Company and the underwriters as compared to the more narrow prior analysis applied and comparable companies used by the Board and the Compensation Committee;
- the Company’s consideration of various objective and subjective factors in the previous fair value determination, as described above, that were not applicable to the preliminary price range; and
- the Company’s purchase through its right of first refusal in April 2012 and May 2012 of an aggregate of 77,498 shares from certain former employees at \$11.50 per share.

**CONFIDENTIAL TREATMENT REQUESTED BY SERVICENOW, INC.  
SERVICENOW-03**

Based upon all the factors discussed above, the Company advises the Staff that it believes that the description above adequately and accurately discloses the significant factors contributing to the difference between the midpoint of the estimated price range for the Company's initial public offering and the fair value of the Company's common stock as of May 7, 2012, the grant date of the Company's most recent stock options.

The Company supplementally advises the Staff that it intends to grant stock options to purchase an aggregate of approximately 1,100,000 shares of common stock with an exercise price equal to the midpoint of the initial public offering price range in early June 2012, in accordance with its standard policy.

The Company supplementally advises the Staff that in the amendment to the Registration Statement which contains an estimated price range, the Company will include the following disclosure:

"We have determined, after consultation with the underwriters, that our anticipated initial offering price range as reflected in this prospectus is \$        to \$        per share. As of the date of our most recent stock option grants on May 7, 2012, our board of directors determined the fair value of our common stock to be \$12.45 per share. The determination was based upon the objective and subjective factors described above. We believe the difference between the fair value of our common stock on the most recent date of grant, as determined by our board of directors, and the anticipated initial offering price range is a result of the following factors:

- the anticipated price range necessarily assumes that the initial public offering has occurred and a public market for our common stock has been created, and therefore excludes any marketability or illiquidity discount for our common stock, which was appropriately taken into account in our board of directors' fair value determination in early May 2012 and prior; and
- the consideration of recent financial, trading and market statistics of comparable companies and a broader set of software companies, including some that have either recently completed or currently have pending initial public offerings, discussed between us and the underwriters as compared to the more narrow prior analysis applied and comparable companies used by the board of directors."

\* \* \* \* \*

**CONFIDENTIAL TREATMENT REQUESTED BY SERVICENOW, INC.  
SERVICENOW-04**

Should the Staff have additional questions or comments regarding the foregoing, please do not hesitate to contact the undersigned at (650) 335-7292 or, in his absence, Dawn Belt, Esq. at (650) 335-7830.

Sincerely,  
FENWICK & WEST LLP

/s/ Robert A. Freedman  
Robert A. Freedman

cc:

Frank Sloomman, Chief Executive Officer  
Michael P. Scarpelli, Chief Financial Officer  
Robert Specker, Esq., General Counsel  
Ethan Christensen, Esq., Vice President, Legal  
**ServiceNow, Inc.**

Gordon K. Davidson, Esq.  
Dawn Belt, Esq.  
**Fenwick & West LLP**

Stephane Berthier  
**PricewaterhouseCoopers LLP**

Eric Jensen, Esq.  
John McKenna, Esq.  
**Cooley LLP**

**CONFIDENTIAL TREATMENT REQUESTED BY SERVICENOW, INC.**  
**SERVICENOW-05**





SILICON VALLEY 801 CALIFORNIA STREET MOUNTAIN VIEW, CA 94041  
TEL: 650.988.8500 FAX: 650.938.5200 WWW.FENWICK.COM

ROBERT A. FREEDMAN

May 24, 2012

EMAIL RFREEDMAN@FENWICK.COM  
Direct Dial (650) 335-7292

**VIA EDGAR AND HAND DELIVERY**

Securities and Exchange Commission  
Division of Corporation Finance  
100 F Street N.E.  
Washington, D.C. 20549

Attention: Barbara C. Jacobs, Assistant Director  
Matthew Crispino, Staff Attorney  
Patrick Gilmore, Accounting Branch Chief  
David Edgar, Staff Accountant

Re: ServiceNow, Inc.  
Amendment No. 1 to Registration Statement on Form S-1  
Filed on May 4, 2012  
File No. 333-180486

Ladies and Gentlemen:

On behalf of ServiceNow, Inc. (the “**Company**”), we are concurrently transmitting herewith Amendment No. 2 (the “**Amendment**”) to the Registration Statement on Form S-1 (Registration No. 333-180486) originally filed by the Company with the U.S. Securities and Exchange Commission (the “**Commission**”) on March 30, 2012, as amended to date (the “**Registration Statement**”). In this letter, the Company responds to the comments of the staff of the Commission (the “**Staff**”) contained in your letter dated May 22, 2012. The numbered paragraphs below correspond to the numbered comments in that letter; the Staff’s comment is presented in bold italics.

We have also enclosed with the copy of this letter that is being transmitted via hand delivery, four copies of the Amendment in paper format, marked to show changes from the Amendment No. 1 to Registration Statement as filed on May 4, 2012.

Revenues, page 51

**1. We note your response to prior comment 9 and your revised disclosures relating to your results of operations for the three months ended March 2011 and 2012, as well as the six months ended December 31, 2010 and 2011. However, we note that you did not similarly revise disclosures for fiscal 2009, 2010 and 2011. Please revise to quantify the relative significance of sales to new customers versus existing customers, direct sales versus channel partner sales and sales within North America versus outside North America.**

In response to the Staff's comment, the Company has revised its disclosure on page 52 of the Registration Statement.

Provision for Income Taxes, page 51

**2. We note your response to prior comment 10 and your revised disclosures relating to your results of operations for the three months ended March 2011 and 2012. However, we note that you did not similarly revise disclosures for the six months ended December 31, 2010 and 2011 or fiscal 2009, 2010 and 2011. Please revise to provide a discussion of factors that have had a significant impact on your effective income tax rate for all periods presented.**

The Company respectfully advises the Staff that on page F-32 of the Registration Statement, it discusses the components of the income tax provision, including Federal, state and foreign current and deferred items, for the fiscal years ended June 30, 2009, 2010 and 2011 and for the six months ended December 31, 2010 and 2011. On the same page, the Company also discusses the significant factors causing the effective income tax rate to differ from the Federal statutory income tax rate (see table).

In response to the Staff's comment, the Company has revised its disclosure on pages 51 and 56 of the Registration Statement.

Stock-Based Compensation, page 64

**3. We note your response to prior comment 15 and your revised disclosures regarding the comparable publicly-traded companies used in your common stock valuations. As previously requested, please confirm that the same set of comparable publicly-traded companies is used in all of your various valuation estimates, including expected volatility, and update your disclosure.**

In response to the Staff's comment, the Company has revised its disclosure on page 65 of the Registration Statement.

**4. We note your revised disclosure on page 69 in response to prior comment 20 that your board of directors concluded that the July 2011 valuation of \$3.75 per share of common stock was not less than the fair market value of your common stock in August 2011, September 2011 and October 2011. Based on this disclosure it is not clear what the value of your common stock was during each of these periods although based on the table on page 66, it appears that the fair value of your common stock**

*during each of these periods was \$3.75 per share. Considering you use the Black-Scholes option-pricing model to determine the fair value of your stock-based awards and the fair value of the underlying common stock is one of the assumptions used in this model, please revise your disclosure to clearly state the fair value of your common stock as determined by management or your board of directors for each of these periods.*

In response to the Staff's comment, the Company has revised its disclosure on page 70 of the Registration Statement.

Revenue Recognition, page F-10

*5. We note your response to prior comment 31 that the implementation and configuration services you provide represent the culmination of a separate earnings process. Notwithstanding your response to prior comment 32, please explain in detail the services performed for initial implementation and configuration and how your determined that these services represent the culmination of a separate earnings process including whether these services have any utility to the customer separate from the ongoing subscription services.*

In response to the Staff's comment, the Company supplementally advises the Staff of the services performed for initial implementation and configuration and how the Company determined these services represent the culmination of a separate earnings process including whether these services have any utility to the customer separate from the ongoing subscription services.

The Company's initial implementation typically optimizes the following core set of IT Service Management, or ITSM, applications that are part of the Company's subscription offering for the customers' specific workflows and business processes:

- Incident Management;
- Problem Management;
- Change Management; and
- Configuration Management

The Company's ITSM applications are functional without any additional development, modification or customization. The Company's core implementation services are designed to facilitate the deployment of Incident Management, Problem Management, Change Management, and Configuration Management using the Company's StartNow implementation methodology. This methodology focuses on the people, process, and technology changes required for its customers to successfully deploy the ITSM applications into their environment. The Company's solutions are delivered within the customers' IT environment in five phases: (i) Discover (whereby the Company gains an understanding of the process); (ii) Plan (consists of a review of the requirements against the offering); (iii) Prepare (the Company sets up the core system records); (iv) Deploy (the Company optimizes and configures the application in the customer environment); and (v) Operate (the testing and operation of the system) and include the following activities:

StartNow Phase	Main Tasks	Task Description
<b>Plan</b>	Project Kick-off	Project Kick-off meeting to review project objectives across people, process, and technology. Gain agreement on project plan and governance approach.
<b>Discover</b>	Gap Analysis Workshop	Workshops to understand business process requirements of the customer and what application configuration needs to be completed to support these process requirements.
<b>Prepare</b>	Integration	Configuration of required integrations from the Company to other customer applications where information will need to be exchanged.
<b>Deploy</b>	Configure Incident Application	Tailor the Incident application per the configuration requirements identified in the Discover phase.
	Configure Problem Application	Tailor the Problem application per the configuration requirements identified in the Discover phase.
	Configure Change Application	Tailor the Change application per the configuration requirements identified in the Discover phase.
	Configure Configuration Application	Tailor the Configuration application per the configuration requirements identified in the Discover phase.
	User Testing & Training	Completion of User Testing & Training to ensure the application configuration changes meet business process requirements.
<b>Operate</b>	Deploy changes into Production	Promote the updated configuration set into Production.

In addition to the core service offering outlined above, is the Company also offers a range of packaged services offerings, which include:

- Tailored Deployments;
- Remote Administration;
- Program Pulse Check;
- Delivery Assurance;
- Process Workshops;
- Process User Training;
- Configuration Reviews;
- Configuration Optimization;
- Performance Review; and
- Production Readiness Review;

The Company's implementation and configuration services provide an opportunity to its customers to reengineer their ITSM business processes. Its customers perceive additional value from the implementation services because they can choose to purchase these services from other third-party vendors or from the Company. Historically, certain customers have purchased the Company's subscription service without the professional services as the Company's on-demand application is fully functional without any additional development, modification or customization. Therefore, the Company's professional services revenues meet the conditions necessary for separation from the Company's subscription service revenues as third-party vendors currently sell the professional services separately, these vendors and the customers themselves can and do perform the implementation and configuration services without the Company's involvement, and the implementation and configuration services are not essential to the functionality of the ITSM applications.

\* \* \* \* \*

Should the Staff have additional questions or comments regarding the foregoing, please do not hesitate to contact the undersigned at (650) 335-7292 or, in his absence, Dawn Belt, Esq. at (650) 335-7830.

Sincerely,  
FENWICK & WEST LLP

/s/ Robert A. Freedman

---

Robert A. Freedman

cc: Frank Sloodman, Chief Executive Officer  
Michael P. Scarpelli, Chief Financial Officer  
Robert Specker, Esq., General Counsel  
Ethan Christensen, Esq., Vice President, Legal  
**ServiceNow, Inc.**

Gordon K. Davidson, Esq.  
Dawn Belt, Esq.  
**Fenwick & West LLP**

Stephane Berthier  
**PricewaterhouseCoopers LLP**

Eric Jensen, Esq.  
John McKenna, Esq.  
**Cooley LLP**